



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL AUDIT

State of Montana

*For the Fiscal Year Ended
June 30, 2011*

MARCH 2012

LEGISLATIVE AUDIT
DIVISION

11-01A

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§5-13-202(2), MCA

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FINANCIAL AUDITS

Financial audits are conducted by the Legislative Audit Division to determine if the financial statements included in this report are presented fairly and the agency has complied with laws and regulations having a direct and material effect on the financial statements. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2009, was issued March 1, 2010. The Single Audit Report for the two fiscal years ended June 30, 2011, will be issued by March 31, 2012. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
Room 277, State Capitol
P.O. Box 200802
Helena, MT 59620-0802

Legislative Audit Division
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LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
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Deputy Legislative Auditors
Cindy Jorgenson
Angie Grove

March 2012

The Legislative Audit Committee
of the Montana State Legislature:

This financial audit report contains our Independent Auditor's Report on the basic financial statements and the Schedule of Expenditures of Federal Awards of the state of Montana for the fiscal year ended June 30, 2011. The basic financial statements were prepared by the State Accounting Division of the Department of Administration. The Schedule of Expenditures of Federal Awards was prepared by the Governor's Office of Budget and Program Planning.

Department of Administration and Governor's Office officials reviewed the contents of this report. The Department of Administration's response is on B-1. The response from the Governor's Office is on B-19.

We thank the Department of Administration's director, the State Accounting Division staff, and the Governor's Office staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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ELECTED, APPOINTED AND ADMINISTRATIVE OFFICIALS

State of Montana

Brian Schweitzer, Governor

Department of Administration

Janet R. Kelly, Director

State Accounting Division

Paul Christofferson, CPA, Administrator

Accounting Bureau

Julie Feldman, Bureau Chief

Accounting Principles/Financial Reporting Section

Cody Carter, CPA, Accountant

Charles Idehen, CPA, Accountant

Heather Jarvis, Accountant

Ingrid Mallo, CPA, Accountant

Ginger Pfankuch, Accountant

Dan Stanger, Accountant

Governor's Office

Office of Budget and Program Planning

Dan Villa, Director

Mark Bruno, Single Audit Coordinator

For additional information concerning the basic financial statements, contact:

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For additional information concerning the Schedule of Expenditures of Federal Awards, contact:

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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL AUDIT State of Montana

For the Fiscal Year Ended June 30, 2011

MARCH 2012

11-01A

REPORT SUMMARY

The Montana Legislature uses the State's Basic Financial Statements to gain perspective of the State's financial position to help guide its course of actions. At the end of fiscal year 2011, Montana had approximately \$341.8 million of unassigned fund balance in the General Fund.

Context

The Basic Financial Statements include all of the state's financial activity for the fiscal year. The General Fund and Federal Special Revenue Fund make up over 75 percent of the state's governmental revenue and expenditure activity. Health and Social Services and Education and Cultural activities make up 63 percent of the state's governmental expenditures.

An in-depth analysis of the state's financial position as of June 30, 2011, can be reviewed in the Management's Discussion and Analysis section of the report. Additional information is also provided in the Notes to the Financial Statements.

In fiscal year 2010-11, the General Fund became responsible for paying the Montana State Fund (MSF) workers' compensation claims that were incurred before July 1, 1990, (old fund claims) when the Old Fund resources were exhausted. During the fiscal year, approximately \$50,000 was transferred out of the general fund to MSF to pay claims. The remaining claims outstanding total around \$64 million and are an obligation of the General Fund. The accompanying financial statements do not present the claims liability according to Generally Accepted Accounting Principles.

Results

In fiscal year 2010-11, the retirement systems' audits disclosed material noncompliance with the Montana Constitution and state law requiring the systems to be actuarially sound. As of July 1, 2011, the Public Employees' Retirement System-Defined Benefit Retirement Plan, Sheriffs', Game Wardens' and Peace Officers', Highway Patrol Officers', and the Teachers' Retirement Systems were not adequately funded.

Recommendation Concurrence	
Concur	0
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

For a complete copy of the report (11-01A#) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at <http://leg.mt.gov/audit>
Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE
Call toll-free 1-800-222-4446, or e-mail lad@mt.gov.

Chapter I – Introduction

Audit Objectives

We performed a financial audit of the state of Montana's basic financial statements for the fiscal year ended June 30, 2011. The objective of the audit was to express opinions on the fair presentation of the state's basic financial statements in accordance with Generally Accepted Accounting Principles (GAAP) and a related opinion on the Schedule of Expenditures of Federal Awards.

This report contains no recommendations. We discussed issues we identified during the audit with appropriate management personnel and will communicate issues affecting other agencies to our scheduled financial-compliance audits of state agencies for further review.

Introduction

Under §17-2-110, MCA, the Department of Administration (department) must consolidate every state agency's financial data into an annual financial report. The department prepared the annual financial report or basic financial statements from the Statewide Accounting, Budgeting and Human Resources System.

The Independent Auditor's Report is on page A-3 followed by the Management's Discussion and Analysis, the basic financial statements, notes to the financial statements, the Budgetary Comparison Schedule, Pension Plan Information, Other Postemployment Benefits Plan Information, and accompanying notes. The Schedule of Expenditures of Federal Awards begins on page A-127. We issued a qualified opinion on the basic financial statements and an unqualified in-relation-to opinion on the Schedule of Expenditures of Federal Awards.

Our report on the state of Montana's internal control over financial reporting and on compliance and other matters which is required by *Government Auditing Standards*, is on page A-1. Auditing standards require us to communicate, in writing, deficiencies in internal control over financial reporting we identified based on an audit of basic financial statements performed in accordance with *Government Auditing Standards* and considered to be significant or material.

Auditing standards also require us to communicate, in writing, material noncompliance with the provisions of laws, regulations, contracts, and grant agreements that could have a direct and material effect on the determination of financial statement amounts. Our report on the consideration of internal control over financial reporting and on compliance and other matters reports noncompliance with the Montana Constitution

and state law regarding actuarial soundness of certain retirement systems. Additional information is provided in the following paragraph.

Prior Audit Recommendations

We performed the prior audit of the state of Montana's basic financial statements for the fiscal year ended June 30, 2010. The prior audit did not contain any recommendations, but disclosed material noncompliance with the Montana Constitution and state law. At July 1, 2010, the Public Employees' Retirement System – Defined Benefit Retirement Plan (PERS-DBRP), Game Wardens' and Peace Officers' (GWPORS), Sheriffs' (SRS), and Teachers' retirement systems (TRS) were not actuarially sound. As of July 1, 2011 the above systems as well as the Highway Patrol Officers' Retirement System (HPORS) were not actuarially sound. Actuarial soundness is defined as an amortization period for the Unfunded Actuarial Accrued Liability (UAAL) of 30 years or less. The amortization period is listed below for the unsound systems. This information is also disclosed in the reports on page A-1 and A-3 and the Public Employees' Retirement Board (10-08B) and Teachers' Retirement System (10-09B) audit reports.

Table 1
Amortization Period for Unsound Systems
at July 1, 2010 and 2011 (in years)

Retirement System	as of July 1, 2010	as of July 1, 2011
TRS	49.5	71
PERS-DBRP	Infinite*	Infinite*
SRS	Infinite*	Infinite*
GWPORS	Infinite*	Infinite*
HPORS	29.9	48.2

*Infinite is defined as the liability does not amortize.

Source: Compiled by the Legislative Audit Division from reports 10-08B and 10-09B.

**Independent Auditor's Report,
Basic Financial Statements, Required
Supplementary Information and Schedule
of Expenditures of Federal Awards**

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors
Cindy Jorgenson
Angie Grove

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the state of Montana, as of and for the year ended June 30, 2011, which collectively comprise the state of Montana's basic financial statements and have issued our report thereon dated March 19, 2012. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Audit Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Montana State University component units and University of Montana component units, as described in our report on the state of Montana's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Montana State University component units and University of Montana component units were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

Management of the state of Montana is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the state of Montana's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the state of Montana's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the state of Montana's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the state of Montana's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. The identified instances of noncompliance are described below:

1. The Public Employees' Retirement Board administers eight defined benefit retirement systems. The Montana Constitution and state law require these systems to be actuarially sound. The actuarial valuation as of July 1, 2011, indicates the Public Employees' Retirement System-Defined Benefit Retirement Plan, Sheriffs' Retirement System, Highway Patrol Officers' Retirement System and the Game Wardens' and Peace Officers Retirement System are not actuarially sound.
2. The Teachers' Retirement Board administers a defined benefit retirement system. The Montana Constitution requires this system to be actuarially sound. The actuarial valuation as of July 1, 2011, indicates the Teachers' Retirement System is not actuarially sound.

We noted certain matters that we reported to the management of the state of Montana during the course of our audit work.

This report is intended solely for the information and use of the Legislative Audit Committee, state of Montana management, the Montana State Legislature, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties. However, this report is a matter of public record and its distribution is not limited.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor

March 19, 2012

LEGISLATIVE AUDIT DIVISION

A-3

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors
Cindy Jorgenson
Angie Grove

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Montana, as of and for the year ended June 30, 2011, which collectively comprise the state's basic financial statements, as follows:

- Statement of Net Assets
- Statement of Activities
- Balance Sheet – Governmental Funds
- Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets
- Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
- Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
- Statement of Net Assets – Proprietary Funds
- Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds
- Statement of Cash Flows – Proprietary Funds
- Statement of Fiduciary Net Assets – Fiduciary Funds
- Statement of Changes in Fiduciary Net Assets – Fiduciary Funds
- Combining Statement of Net Assets – Component Units
- Combining Statement of Activities – Component Units

These financial statements are the responsibility of the state of Montana's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Montana State University component units and the University of Montana component units, which represent 10.1, 25.0, and 6.2 percent, respectively, of the assets, net assets, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the university component units, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the university component units were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a

test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

Management has reported the Old Fund and the New Fund as the Montana State Fund component unit. The Old Fund is no longer part of the Montana State Fund component unit for financial reporting purposes because Generally Accepted Accounting Principles (GAAP) requires the primary government to report the activity of the Old Fund since it is now legally obligated to pay the remaining liabilities. In fiscal year 2010-11 the Old Fund's resources were depleted and the General Fund provided the resources to pay approximately \$50,000 in claims. Under provisions of state law, the General Fund has assumed the remaining estimated \$64.6 million in workers' compensation claim liabilities of the Old Fund, making it a general long-term debt of the primary government. GAAP requires the state to report the debt of a component unit as a liability if it is legally obligated to repay it. The General Fund cannot avoid sacrificing resources for the purpose of repaying the Old Fund claims. The Old Fund is improperly presented in a separate column or line item as part of the Montana State Fund component unit on the Statement of Activities, Combining Statement of Net Assets – Component Units, and Combining Statement of Activities – Component Units. The following table identifies the resulting misstatements (in thousands) on the Basic Financial Statements.

<u>Statement of Net Assets</u>	<u>Over (Under) stated</u> (in thousands)
<u>Governmental Activities Column</u>	
Estimated Future Claim Contribution to Component Units	\$64,621
Long-Term Liabilities (Due within One Year)	(\$9,888)
Long-Term Liabilities (Due in More than One Year)	(\$54,733)
<u>Component Units Column</u>	
Estimated Future Claim Contribution From Primary Government	\$64,621
Long-Term Liabilities (Due within One Year)	\$9,888
Long-Term Liabilities (Due in More than One Year)	\$54,733
<u>Statement of Activities</u>	
<u>Expenses Column</u>	
Governmental Activities: General Government	\$64,621
<u>Component Units Column</u>	
Payment from State of Montana	\$64,621
<u>Combining Statement of Net Assets – Component Units</u>	
<u>Montana State Fund (Old Fund) Column</u>	
Estimated Future Claim Contribution from Primary Government	\$64,621
Long-Term Liabilities (Due within One Year)	\$9,888
Long-Term Liabilities (Due in More than One Year)	\$54,733
<u>Combining Statement of Activities – Component Units</u>	
<u>Montana State Fund (Old Fund) Column</u>	
Payment from State of Montana	\$64,621

Other amounts presented for the Old Fund and not listed above should be reported in the General Fund. Additionally, Notes 1, 8, and 11 do not disclose the change in reporting entity and the state's resulting general obligation debt for the fiscal year ended June 30, 2011.

In our opinion, based on our audit and the reports of other auditors, except for the reporting of Old Fund activity as described in the previous paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, and the General Fund of the state of Montana, as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activities; the state special revenue, the federal special revenue, the land grant, the coal severance tax, Unemployment Insurance, and Economic Development Bonds major funds; and the aggregate remaining fund information of the State of Montana, as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, the Budgetary Comparison Schedule, the Pension Plan Information, and the Other Post Employment Benefits Plan Information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the state of Montana's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

At July 1, 2011, the Public Employees' Retirement System – Defined Benefit Retirement Plan, Game Wardens' and Peace Officers', Highway Patrol Officers', Sheriffs', and Teachers' retirement systems were not actuarially sound. The Unfunded Actuarial Accrued Liability amortization period is infinite for the Public Employees' Retirement System – Defined Benefit Retirement Plan, Game Wardens' and Peace Officers', and Sheriffs' retirement systems. The amortization period for the Highway Patrol Officers' Retirement System is 48.2 years. The amortization period for the Teachers' retirement system is 71 years. The maximum allowable amortization period is 30 years.

In accordance with *Government Auditing Standards*, we have issued our report dated March 19, 2012, on our consideration of the state of Montana's internal control over financial reporting and on our

tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor

March 19, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

Management of the State of Montana provides this *Management's Discussion and Analysis* of the State of Montana's basic financial statements included in the Comprehensive Annual Financial Report (CAFR). This narrative overview and analysis of the financial activities of the State of Montana is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the additional information that is furnished in the State's financial statements, which follow.

FINANCIAL HIGHLIGHTS – PRIMARY GOVERNMENT

Government-wide Highlights

The assets of the State exceeded its liabilities at the end of fiscal year 2011 by \$7.4 billion (reported as net assets) compared with \$6.8 billion at the end of fiscal year 2010. Of this amount, \$889.4 million (reported as unrestricted net assets) may be used to meet the government's general obligations to citizens and creditors. Component units reported net assets of \$1500.3 million compared with \$1,311.3 million at fiscal year-end 2010. These are discussed in more detail in the financial statement overview below.

Fund Highlights

As of the close of fiscal year 2011, the State's governmental funds reported combined ending fund balances of \$3.8 billion compared with \$3.7 billion at fiscal year 2010. Of this amount, \$1.3 billion is not in spendable form, primarily as permanent fund principle, and \$2.5 billion is available for spending. The \$2.5 billion fund balance in spendable form is segregated by constraint as follows: \$1.1 billion restricted, \$1.0 billion committed, \$52.3 million assigned and \$340 million unassigned, primarily in the General Fund. These changes are discussed in more detail in the financial analysis of the State's major funds presented below.

The State's business-type activity funds reported net assets at the close of fiscal year 2011 in the amount of \$186.7 million compared with the fiscal year-end 2010 net assets of \$194.7 million. Of the business-type activity fund equity \$15.6 million was invested in capital assets, net of related debt. \$171.1 million of net assets was in spendable form with \$12.3 million unrestricted and \$158.8 million restricted to expenditure for a specific purpose. This represents a \$9.5 million (5.3%) decrease in spendable net assets from the fiscal year-end 2010 balance of \$180.2 million. These changes are discussed in more detail in the financial analysis of the State's major funds presented below.

Long-term Debt

The State's total bonds and notes payable for governmental activities decreased by \$2.7 million, from \$360.9 million in fiscal year 2010 to \$358.2 million (0.7%) in fiscal year 2011.

Business-type activities reported bonds and notes payable of \$0.2 million at fiscal year-end 2011. This represents a decrease of \$0.2 million (50.0%) over the fiscal year-end 2011 reported amount of \$0.4 million. For details relating to the states long term debt see footnote 11.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the State of Montana's basic financial statements. The State's basic financial statements include three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The report also contains additional required supplementary information (budgetary schedules and other post employment benefits plan information). These components are described below:

Basic Financial Statements

The basic financial statements include two kinds of financial statements that present different views of the State – the *government-wide financial statements* and the *fund financial statements and combining major component unit financial statements*. These financial statements also include the *notes to the financial statements* that explain some of the information in the financial statements and provide more detail.

Government-wide Financial Statements

The *government-wide financial statements* provide a broad view of the State's operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the State's financial position, which assists in assessing the State's economic condition at the end of the fiscal year. These are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means they follow methods that are similar to those used by most businesses, including all revenues and expenses connected with the fiscal year, even if cash involved has not been received or paid. The government-wide financial statements include two statements.

The *Statement of Net Assets* presents all of the government's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases or decreases in the State's net assets may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the State.

Both of the above financial statements have separate sections for three different types of state programs or activities. These three types of activities are as follow:

Governmental Activities – The activities in this section are mostly supported by taxes and intergovernmental revenues (federal grants). Most services normally associated with state government fall into this category, including education (support for both K-12 public schools and higher education), general government, health services, legal and judiciary services, museums, natural resources, public safety and defense, regulatory services, social services, and transportation.

Business-type Activities – These functions are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. The major business-type activities of the State include the Unemployment Insurance Fund and the Economic Development Bond Program which assists Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.

Discretely Presented Component Units – These are operations for which the State has financial accountability, but they have certain independent qualities as well. In order to be considered component units these entities must be legally separate to the extent that they may sue, or be sued, in their own right. For the most part, these entities operate similarly to private sector businesses and the business-type activities described above. The State has four authorities and two universities that are reported as discretely presented component units of the State.

Fund Financial Statements (Reporting the State's Major Funds)

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements focus on individual parts of the State government, reporting the State's operations in more detail than the government-wide statements. All of the funds can be divided into three categories. It is important to note that these fund categories use different accounting approaches and should be interpreted differently. The three categories of funds are as follows:

Governmental Funds Financial Statements – Most of the basic services provided by the State are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the State's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the State.

The State has five governmental funds that are considered major funds for presentation purposes. Each major fund is presented in a separate column in the governmental fund balance sheet and in the governmental fund statement of revenues,

expenditures, and changes in fund balances. The State's five major governmental funds are the General Fund, the State Special Revenue Fund, the Federal Special Revenue Fund, the Coal Severance Tax Fund, and the Land Grant Fund.

Proprietary Funds Financial Statements – When the State charges customers for the service it provides, whether to outside customers or to other agencies within the State, these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) utilize full accrual accounting, the same method used by private sector businesses. Enterprise funds report activities that provide supplies and services to the general public. An example is the State Lottery. An internal service fund reports activities that provide supplies and services for the State's other programs and activities such as the Motor Pool.

Fiduciary Funds – These funds are used to account for resources held for the benefit of parties outside state government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the State's own programs. Fiduciary funds use the full accrual basis of accounting. A retirement fund is an example of a fiduciary fund.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found immediately following the component unit financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section contains a budgetary comparison schedule, which includes the reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund, as presented in the governmental fund financial statements, the schedule of funding progress for the pension plans, and other post employment benefits plan information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Montana's overall financial position improved from the last fiscal year. This improvement resulted from a mild economic recovery within the State.

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The State's combined net assets (government and business-type activities) totaled \$7.6 billion at the end of fiscal year 2011. Net assets of the governmental activities increased \$406.6 million (5.9%), and business-type activities had a \$8.1 million (4.1%) decrease. These changes are explained in detail in the major fund analysis below

A portion of the State's net assets reflects its investment in capital assets such as land, buildings, equipment and infrastructure (roads, bridges, and other immovable assets) less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the State's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the State's ongoing obligations to citizens and creditors. Internally imposed designations of resources are not presented as restricted net assets.

At the end of the current fiscal year, the State was able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Net Assets
As of Fiscal Year Ended June 30
(expressed in thousands)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	2010	2011	2010	2011	2010	2011
Current and other assets	\$4,678,781	\$4,889,350	\$326,068	\$319,280	\$5,004,849	\$5,208,630
Capital assets	4,149,204	4,455,465	14,534	15,963	4,163,738	4,471,428
Total assets	8,827,985	9,344,815	340,602	335,243	9,168,587	9,680,058
Long-term liabilities	879,029	861,287	10,577	12,276	889,606	873,563
Other liabilities	1,007,219	1,135,189	135,305	136,302	1,142,524	1,271,491
Total liabilities	1,886,248	1,996,476	145,882	148,578	2,032,130	2,145,054
Invested in capital assets, net of related debt	3,874,920	4,178,343	14,534	15,963	3,889,454	4,194,306
Restricted	1,983,143	2,292,979	159,335	158,735	2,142,478	2,451,714
Unrestricted	1,083,674	877,017	20,851	11,967	1,104,525	888,984
Total net assets	\$6,941,737	\$7,348,339	\$194,720	\$186,665	\$7,136,457	\$7,535,004

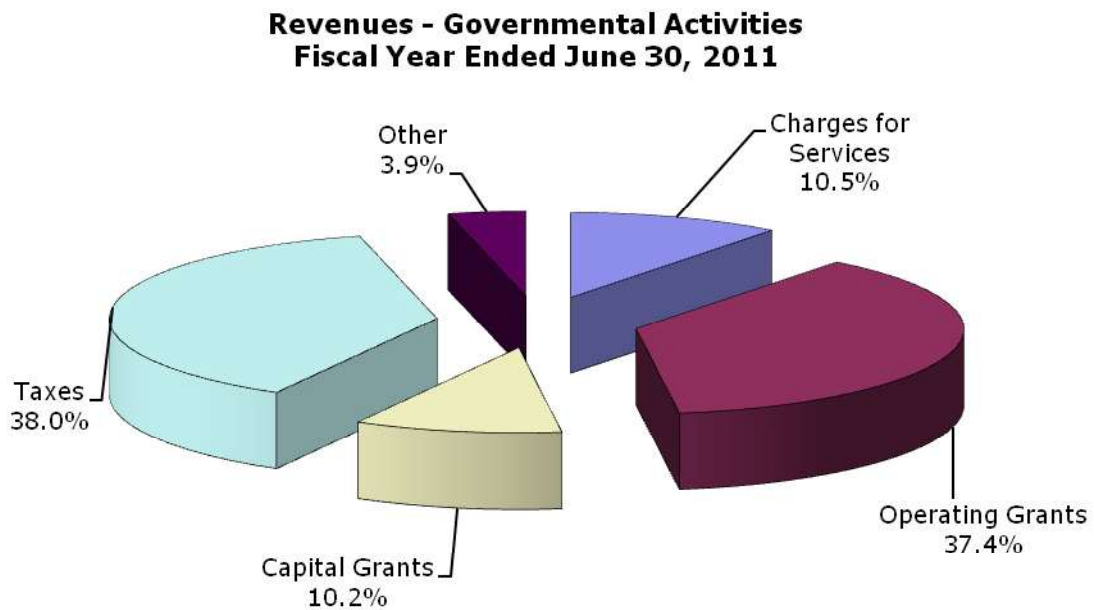
The following condensed financial information was derived from the government-wide Statement of Activities, and reflects how the State's net assets changed during the fiscal year:

Changes in Net Assets
For Fiscal Year Ended June 30
(expressed in thousands)

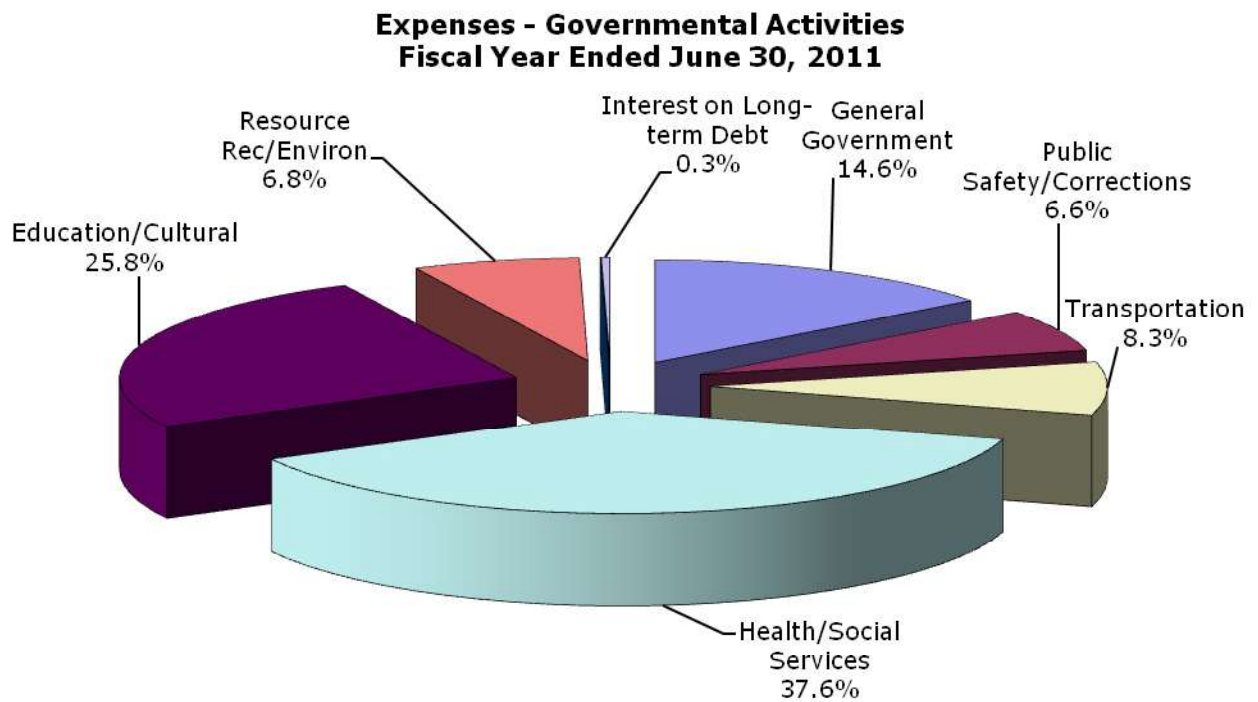
	Governmental Activities		Business-type Activities		Total Primary Government	
	2010	2011	2010	2011	2010	2011
Revenues:						
Program revenues						
Charges for services	\$ 612,041	\$ 551,722	\$ 309,975	\$ 362,776	\$ 922,016	\$ 914,498
Operating grants	1,985,977	1,962,876	226,049	168,222	2,212,026	2,131,098
Capital grants	510,996	537,194	3,174	281	514,170	537,475
General revenues						
Taxes	1,817,564	1,997,392	25,017	21,797	1,842,581	2,019,189
Other	258,627	200,294	4,622	5,306	263,249	205,600
Total revenues	5,185,205	5,249,478	568,837	558,382	5,754,042	5,807,860
Expenses:						
General government	774,881	752,565			774,881	752,565
Public safety/corrections	342,803	308,593			342,803	308,593
Transportation	320,085	390,523			320,085	390,523
Health/social services	1,677,261	1,765,871			1,677,261	1,765,871
Educational/cultural	1,179,788	1,209,969			1,179,788	1,209,969
Resource/rec/envirom	318,300	318,954			318,300	318,954
Principal on long-term debt	-	6				6
Interest on long-term debt	17,692	16,314			17,692	16,314
Unemployment Insurance			354,794	278,086	354,794	278,086
Liquor Stores			61,569	63,573	61,569	63,573
State Lottery			36,365	35,481	36,365	35,481
Economic Dev Bonds			2,167	1,126	2,167	1,126
Hail Insurance			6,238	8,379	6,238	8,379
Gen Govt Services			62,796	63,003	62,796	63,003
Prison Funds			6,463	6,149	6,463	6,149
MUS Group Insurance			72,606	63,501	72,606	63,501
MUS Workers Comp			3,900	4,232	3,900	4,232
Total expenses	4,630,810	4,762,795	606,898	523,530	5,237,708	5,286,325
Increase (decrease) in net assets before transfers	554,395	486,683	(38,061)	34,852	516,334	521,535
Transfers	42,486	40,547	(42,486)	(40,547)	-	-
Change in net assets	596,881	527,230	(80,547)	(5,695)	516,334	521,353
Net assets, beg of year (restated)	6,344,856	6,821,109	275,267	192,360	6,620,123	7,013,469
Net assets, end of year	\$6,941,737	\$7,348,339	\$ 194,720	\$ 186,665	\$7,136,457	\$7,535,004

Governmental Activities

The following [chart](#) depicts revenues of the governmental activities for the fiscal year:

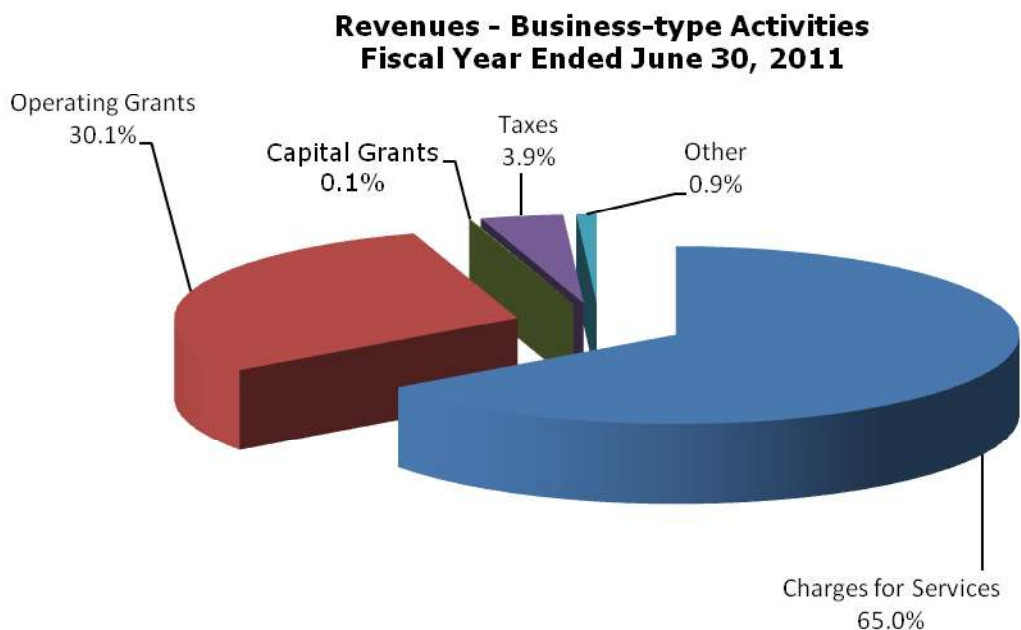


The following chart depicts expenses of the governmental activities for the fiscal year:

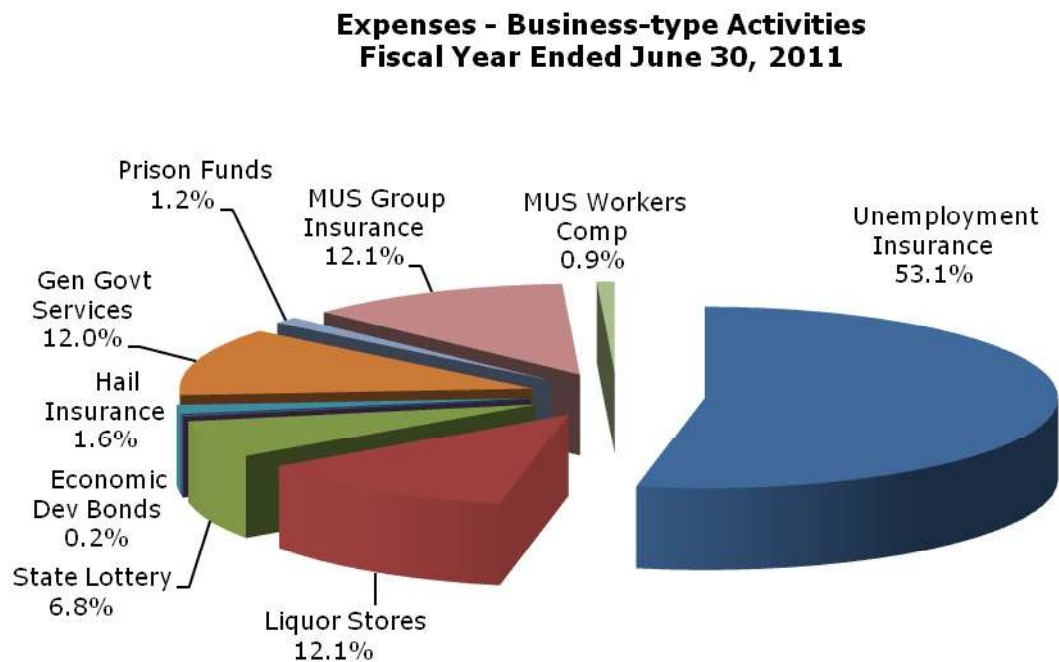


Business-type Activities

The following chart depicts revenues of the business-type activities for the fiscal year:



The following chart depicts expenses of the business-type activities for the fiscal year:



FINANCIAL ANALYSIS OF THE STATE'S MAJOR FUNDS

As the State completed the year, its governmental funds reported fund balances of \$3.8 billion. Of this total amount, \$2.50 billion (66%) constitutes spendable fund balance and \$1.33 billion (35%) is classified as non-spendable. The spendable fund balance is further classified as restricted, \$1,106 million (44.2%), committed, \$1,005 million (40.1%), assigned, \$52 million (2.1%), and unassigned, \$340 million (13.6%). The preceding percentages are calculated on total spendable fund balance. The analysis of the following major funds, providing the majority of the net assets for the government, follows.

General Fund

The General Fund is the chief operating fund of the State. At the end of the current fiscal year, combined unassigned and assigned (spendable) fund balance of the General Fund was \$366.5 million. This represents 14.6% of the 2.5 billion spendable governmental fund balances for all governmental funds. The ending General Fund unassigned fund balance was \$114.6 million higher than the anticipated \$227.3 million unassigned fund balance estimated by the 62nd Legislature. Unassigned fund balance increased by \$102.8 million primarily when compared to the previously reported fund balance of \$239.0 million. This increase was primarily the result of a decrease in the estimated spend down of fund balance for subsequent fiscal year expenditures from \$71.4 million to \$0.00, and increased income, corporate and natural resource tax revenues, resulting from a modest economic recovery. General Fund expenditures for fiscal year 2011 increased by \$63.5 million (4.0%). This increase in expenditures primarily occurred in the Health and Human Services and Educational/Cultural functions. The increased revenues more than offset the rise in expenditures. The changes in both expenditures and revenues are discussed in detail below.

Higher Revenues Than Anticipated – Total General Fund revenues and transfers in were \$1,783.0 million for fiscal year 2011. This was \$152.6 million (9.4%) more than fiscal year 2010, and \$76.3 million (4.5%) more than what was projected for fiscal year 2011 by the legislature. The increase in revenue from fiscal year 2010 to fiscal year 2011 was primarily in individual and corporate income and natural resource taxes. The overall national recovery, combined with the record calendar year 2010 crop production along with higher farm commodity prices, contributed to the income and corporate tax increases. Higher natural resource prices were the underlying reason for the natural resource tax revenue increase.

General Fund Expenditure Budget Reversions

Much of the unspent funds were attributable to Governor's reductions per 17-7-140, MCA (\$28.3 million which affected most agencies statewide), the Otter Creek Bonus Payment (\$82 million affecting OPI), and HB 645 (\$24.2 million statewide but mostly impacting Health and Human Services). The major reversions are discussed in more detail below.

Public Health & Human Services Reversions

The Department of Public Health and Human Services (DPHHS) has unspent appropriation authority of nearly \$42 million for 2011. Authority for these unspent appropriations comes from a combination of the General Appropriations Act, House Bill (HB) 2 & 13, the Montana Reinvestment Act, HB645, planned reversions attributable to the Federal Medicaid Match (FMAP) enhancement, and the Governor's Reductions per 17-7-140, MCA. Significant portions of this unspent appropriation can be attributed to the following:

- Medicaid Benefits and Administration (primarily HB 645) — \$13.8 million.
- Restricted fund balances (excluding Medicaid)—\$0.4 million.
- Governor's 17-7-140, MCA, Reductions (\$14.2 million) - These reductions included a variety of operational, personal services, provider rate increases and program efficiencies.

The balance of the Department's unspent appropriation (approximately \$14 million) was attributable to planned reversions attributable to the enhanced FMAP rate per the JOBS Bill and other miscellaneous reversions across account types.

Office of Public Instruction Reversions

The Office of Public Instruction reverted approximately \$82 million of FY 2011 appropriations. The reversion is K-12 Base Aid due to the one-time-only Otter Creek bonus payment that went to the Guarantee Account offsetting the General Fund appropriation. K-12 Base Aid funding is biennial funding that rolled into FY 2011 at the end of FY 2010 and was then reverted at the end of FY 2011.

Higher General Fund Expenditures – General Fund expenditures increased by \$63.5 million (4.0%). The major factor behind this increase was the educational funding provided by the Otter Creek bonus payment. This payment directly reduced General Fund educational expenditures in 2010. The funding of these educational expenditures at a normal level led to an overall increase in general Fund Expenditures. Additionally Medicaid payments were greater as a result of increased caseloads.

State Special Revenue Fund

At the end of the current fiscal year, the fund balance of the State Special Revenue Fund was \$1.6 billion. Fund balance increased during the fiscal year by \$80.6 million (5.3%). This increase was caused by a combination of lower: revenues collections, expenditure levels, and transfers in combined with a significant prior period adjustment. These changes are discussed in detail below. Although revenues and transfers in decreased significantly, the transfers in of \$166.3 million, combined with decreased expenditures more than offset the decrease in revenues, resulting in the overall increased fund balance.

Lower State Special Revenue Fund Revenues – Overall revenues decreased by \$57.6 million. A discussion of the causes for the major changes follows:

- Charges for services/fines/forfeits/settlements decreased by \$50.4 million (35.3%) because the state received significantly less in pollution/wildlife remediation settlement payments in 2011. In 2011 the State received one major settlement relating to the Flying J Facility of \$2.4 million compared to \$42.5 million of mitigation payments in fiscal year 2010.
- Investment earnings decreased by \$18.7 million (35.9%) primarily as the result of the extremely low Short Term Investment Pool (STIP) earnings during fiscal year 2011.
- Federal indirect cost recoveries decreased by \$12.9 million (21.8%). \$12.6 million of this decrease related to reduced federal indirect cost recoveries in the Highway account resulting from a reduced indirect cost rate (from 17.48% to 13.35%) and the continued impact of ARRA expenditures on which the State did not recover indirect costs.

Lower State Special Revenue Fund Transfers In - Transfers in decreased significantly in 2011 because similar, significant, one time only transfers that occurred in 2010 (Otter Creek, \$81.5 million), were not repeated and the ARRA transfers were reduced in 2011, resulting in a \$152.7 (47.9%) million decrease in transfers-in for the year. As noted above the transfers in of \$166.3 million more than offset the decreased revenue in the fund resulting in the higher net asset balance at year end.

Lower State Special Revenue Fund Expenditures - Expenditures within the State Special Revenue Fund decreased by \$72.7 million (6.8%). The decrease was primarily in Education/Cultural Function. Spending in this function decreased \$73.8 million because expenditures funded by the Otter Creek coal payment of \$81.5 million in 2010, were instead made by the General Fund in 2011.

Permanent Fund Reclassifications – Prior Period Adjustments increased by \$56.1 million. As explained in Note 2 the State reclassified non-major permanent funds, established by State Legislative action, as Special Revenue Funds. Additional clarification provided by GASB staff, in related National Association of State Controllers meetings, resulted in related permanent fund classification changes of \$59.2 million.

Federal Special Revenue Fund

Fund balance in the Federal Special Revenue Fund increased by \$3.0 million (9.2%) to \$35.1 million. Revenues increased by \$77.3 million (3.3%), expenditures increased by \$107.3 million (4.8%) and transfers out decreased by \$21.9 million (32.5%). Because most federal programs are expenditure-driven, a direct correlation normally exists between revenues/transfers in and expenditures/transfers out. The increased expenditure level was offset by a partially offset by decrease in transfers out resulting in the net increase in overall fund balance. Programs such as Guaranteed Student Loan, Livestock Shell/Egg and some within the Fish Wildlife and Parks and Crime Control agencies are allowed to carry assets in their federal entities, creating a normal overall positive balance for the fund as a whole. The federal revenue and expenditure/transfer out increases resulted from the following:

- The Medicaid expenditures increased in both the General and Federal Funds during fiscal year 2011 resulting in additional expenditures and revenues of \$28.4 million in the Federal Fund. This increase was driven by both caseload increases and continuation of the ARRA federal matching increases;
- Additional Food Stamps were distributed resulting in increased program expenditures of \$21.2 million;
- Highway construction revenues funded by ARRA increased by \$18.6 million;

- Education stabilization funding increased by \$9.1 million;
- Transportation noncapital expenditures relating to highway construction increased by \$78.2 million as the result of increased noncapital asset expenditure activity, primarily grants to local governments and projects under the capitalization threshold, funded through ARRA and Federal Highway reimbursements. 2010 also included an unusually high amount of capitalized infrastructure assets resulting in a much lower than normal expenditure level for the year.
- The decrease in capital outlay of \$72.3 million directly relate to the changes in the Transportation function discussed above.
- The decrease in transfers out primarily related to ARRA funded waste and drinking water projects.

Coal Severance Tax Permanent Fund

Revenue in the Coal Severance Tax Permanent Fund decreased by \$21.6 million (21.3%). Coal tax revenues increased \$7.6 million (7.6%) due to increased coal production within the state, while investment earnings decreased \$29.4 million (37.0%). The increased coal demand resulted from the national and world-wide economic recovery that began in 2010. The revenues relating to appreciation of investments decreased by \$16.8 million (76.7%) as the result of lower projected growth in investment values at the end of the fiscal year, partially offsetting the increased coal tax revenues. Although there were significant changes in the revenues earned within the fund, net assets increased by \$45.8 million (5.3%). By definition, permanent fund transfers out cannot exceed the revenues earned.

Land Grant Permanent Fund

Fund balance in the Land Grant Permanent Fund increased by \$17.4 million (3.5%). Within this fund, investment earnings decreased by \$23.5 million (44.0%). This investment revenue decrease was primarily the result of the decrease in investment appreciation of \$21.9 million (76.7%) as discussed above. The \$73.4 million decrease in royalties was primarily the result of the Otter Creek coal bonus payment of \$81.5 million that flowed through this fund in 2010. Increased oil lease and coal royalties partially offset this decrease. The increase oil lease activity results from the leases that will be required to develop the projected extensive oil reserves, similar to those currently being developed in north Dakota, that exist under eastern and central Montana.

Transfers out decreased by 86.6 million (53.4%) primarily because the State did not have transfers similar to that caused by the 2010, \$81.5 million, Otter Creek bonus payment, discussed above, that flowed through to the State Special Revenue fund.

Unemployment Insurance Enterprise Fund

Net assets restricted for unemployment compensation decreased by \$15.7 million (13.5%). This decrease was significantly less than the \$79.4 million experienced in 2010. This net asset decrease reflects the impact of continued unemployment throughout fiscal year 2011. Overall unemployment rose from 7.3% in July, 2010, to 7.5% in July 2011. During fiscal year 2011 two unemployment rate increases were implemented resulting in increased premiums revenues of \$47.9 million (53.6%). The Federal additional benefits program was discontinued in 2011 contributing to a decrease in grant revenue of \$51.2 million (29.1%) and benefit payments of \$77.2 million (21.8%). Even though revenues increased and benefit payments decreased the overall expenditures were greater than the revenues collected resulting the net asset decrease.

Economic Development Bonds Enterprise Fund

Net assets increased by \$0.5 million (8.5%) in fiscal year 2011. The fund's net assets change results primarily from decreased interest paid during 2011. The lower interest rates that existed during 2010 and 2011 contributed directly to these lower interest costs. Both investment and financing earnings were less during 2011 but the lower interest and operating costs more than offset the lowered revenues resulting in the net income of \$0.5 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2011, amounted to \$6.3 billion, with related accumulated depreciation of \$1.8 billion, leaving a net book value of \$4.5 billion. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the State, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the State's investment in capital assets for the current fiscal year was approximately \$0.3 billion (7.1%) in terms of net book value. Most of the year's capital expenditures were for construction, or reconstruction, of roads and bridges. Additional information relating to the State's capital assets can be found in Note 5 of the notes to the financial statements.

Debt Administration

Montana receives excellent general obligation bond ratings from both Moody's Investor Service (Aa2), Standard and Poor's Corporation (AA) and Fitch Ratings (AA).

State debt may be authorized either by a two-thirds vote of the members of each house of the Legislature, or by a favorable vote of a majority of the State's electors voting thereon. There is no constitutional limit on the amount of debt that may be incurred by the State. The Montana Constitution does, however, prohibit the incurring of debt to cover deficits caused by appropriations exceeding anticipated revenue.

The State of Montana's general obligation debt increased from \$169.2 million at June 30, 2010, to \$174.3 million at June 30, 2011. \$15.9 million is available in debt service funds to service this debt leaving a balance of \$158.4 million in net general obligation debt outstanding.

The ratio of general obligation debt to personal income and the amount of net general obligation debt per capita are:

	Amount <i>(in thousands)</i>	Percentage of Personal Income (1)	State Debt Per Capita (2)
General obligation debt	\$158,425	0.46%	\$179

The ratio of all State debt to personal income as included in the Statistical Tables follows:

	Amount <i>(in thousands)</i>	Percentage of Personal Income (1)	State Debt Per Capita (2)
Total State debt	\$356,037	1.0%	\$367

- (1) Personal income is for calendar year 2010.
 (2) Based on estimated 2010 Montana population.

More detailed information regarding the State's long-term obligations is presented in Note 11 to the financial statements and the statistical tables.

ECONOMIC CONDITION AND OUTLOOK

The unemployment rate for the State of Montana was 7.5% in the second quarter of 2011, which represents an increase from the rate of 7.3% during the second quarter of 2010. This compares favorably with the U.S. June, 2011, rate of 9.2% but reflects the nature of the moderate economic recovery in Montana's economy. An unusual aspect of the recovery is positive impact resulting from the employment of a portion Montana's workforce, still maintaining residency in Montana, in the North Dakota oil fields. This employment of Montana residents in North Dakota and the related revenues derived from payments to landowners and other residents of the area resulted in an overall mild economic recovery for the State without the reduced unemployment that would normally accompany a recovery. While the economic data regarding this is difficult to obtain, the impacts exist in the cities of eastern Montana and western North Dakota and flow through to these financial statements. Increased oil lease activity in eastern and central Montana provide an indication of potential, significant, future oil exploration and production within Montana. The status of Montana's economy is discussed in detail in the Transmittal letter.

The 62nd Legislative Session adjourned on April 28, 2011, with a projected unassigned General Fund balance of \$227.3 million as of the end of fiscal year 2011. During fiscal year 2011, Montana's economy began a moderate recovery ending the year with the unassigned General Fund balance, as of June 30, 2011, at the \$341.9 million level, significantly higher than anticipated in the budget process.

As of June 30, 2011 five of the state retirement systems were not actuarially sound, and had an unfunded actuarially accrued liability. These include the Teachers, Public Employees Defined Benefit Plan, Sheriffs, Game Warden & Peace Officers and Highway Patrol Officers retirement systems. The actuarial condition of these plans are fully disclosed and reported as required by Generally Accepted Accounting Principles (GAAP), and explained in greater detail in Note 6 and Note 18 of the financial statements. The unfunded actuarial liability of these plans is long-term in nature, and does not translate into an inability of the plans to meet their current obligations in the near future.

The other state retirement systems are actuarially sound as of fiscal year end 2011.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the State of Montana's finances for all of Montana's citizens, taxpayers, customers, investors, and creditors. The financial report seeks to demonstrate the State's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the State of Montana, State Accounting Division, Room 255 Mitchell Building, Capitol Complex, Helena, MT 59620.

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STATEMENT OF NET ASSETS

JUNE 30, 2011

(amounts expressed in thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL	BUSINESS-TYPE	COMPONENT	
	ACTIVITIES	ACTIVITIES	TOTAL	UNITS
ASSETS				
Cash/cash equivalents (Note 3)	\$ 1,471,878	\$ 205,888	\$ 1,677,766	\$ 415,957
Receivables (net)	421,071	41,893	462,964	109,456
Due from primary government	-	-	-	1,941
Due from other governments	217,581	3,092	220,673	22,828
Due from component units	1,003	1,764	2,767	348
Estimated future claim contribution from primary government	-	-	-	64,621
Internal balances	(8,718)	8,718	-	-
Inventories	26,922	3,360	30,282	5,353
Advances to component units	17,094	9,949	27,043	-
Long-term loans/notes receivable	356,953	36,594	393,547	676,785
Equity in pooled investments (Note 3)	1,861,260	-	1,861,260	32,502
Investments (Note 3)	362,088	3,569	365,657	1,711,518
Securities lending collateral (Note 3)	148,634	992	149,626	93,164
Deferred charges	3,391	1,394	4,785	7,188
Other assets	10,193	2,068	12,261	61,994
Capital assets (net) (Note 5)	4,455,465	15,963	4,471,428	763,348
Total assets	9,344,815	335,244	9,680,059	3,967,003
LIABILITIES				
Accounts payable	477,874	17,770	495,644	77,365
Lottery prizes payable	-	3,257	3,257	-
Due to primary government	-	-	-	2,767
Due to other governments	60,337	21	60,358	15
Due to component units	1,941	-	1,941	348
Advances from primary government	-	-	-	27,044
Estimated future claim contribution to component unit	64,621	-	64,621	-
Deferred revenue	36,643	5,203	41,846	61,553
Amounts held in custody for others	39,017	20	39,037	10,644
Securities lending liability (Note 3)	148,634	992	149,626	93,164
Other liabilities	3,247	-	3,247	10,253
Short-term debt (Note 11)	-	95,530	95,530	-
Long-term liabilities (Note 11):				
Due within one year	147,168	10,763	157,931	292,690
Due in more than one year	861,287	12,277	873,564	1,813,761
OPEB implicit rate subsidy (Note 7)	155,707	2,746	158,453	77,054
Total liabilities	1,996,476	148,579	2,145,055	2,466,658

	PRIMARY GOVERNMENT			
	GOVERNMENTAL	BUSINESS-TYPE	COMPONENT	
	ACTIVITIES	ACTIVITIES	TOTAL	UNITS
NET ASSETS				
Invested in capital assets, net of related debt	\$ 4,178,343	\$ 15,581	\$ 4,193,924	507,407
Restricted for:				
General government	10,994	-	10,994	-
Transportation	109,939	-	109,939	-
Health and human services	-	-	-	-
Natural resources	321,849	-	321,849	-
Public safety	79,942	-	79,942	-
Education	25,125	-	25,125	-
Funds held as permanent investments:				
Nonexpendable	1,293,499	-	1,293,499	251,301
Expendable	451,631	-	451,631	-
Unemployment compensation	-	100,799	100,799	-
Housing authority	-	-	-	156,523
Other purposes	-	57,936	57,936	133,779
Unrestricted	877,017	12,349	889,366	451,335
Total net assets	\$ 7,348,339	\$ 186,665	\$ 7,535,004	1,500,345

The notes to the financial statements are an integral part of this statement.

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

(amounts expressed in thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			
		CHARGES	OPERATING	CAPITAL	NET
		FOR	GRANTS	GRANTS	
		SERVICES	AND CONTRIBUTIONS	AND CONTRIBUTIONS	(EXPENSE) REVENUE
Primary government:					
Governmental activities:					
General government	\$ 752,565	\$ 138,059	\$ 207,772	\$ -	(406,734)
Public safety/corrections	308,593	145,754	12,789	(11)	(150,061)
Transportation	390,523	25,143	43,177	481,835	159,632
Health/social services	1,765,871	37,166	1,283,469	-	(445,236)
Education/cultural	1,209,969	40,720	294,683	-	(874,566)
Resource/recreation/environment	318,954	164,880	120,986	55,370	22,282
Principal on long-term debt	6	-	-	-	(6)
Interest on long-term debt	16,314	-	-	-	(16,314)
Total governmental activities	4,762,795	551,722	1,962,876	537,194	(1,711,003)
Business-type activities:					
Unemployment Insurance	278,086	137,439	124,791	-	(15,856)
Liquor Stores	63,573	73,298	-	-	9,725
State Lottery	35,481	46,047	-	-	10,566
Economic Development Bonds	1,126	18	1,641	-	533
Hail Insurance	8,379	6,710	-	-	(1,669)
General Government Services	63,003	23,044	41,394	281	1,716
Prison Funds	6,149	6,276	-	-	127
MUS Group Insurance	63,501	65,228	396	-	2,123
MUS Workers Compensation	4,232	4,716	-	-	484
Total business-type activities	523,530	362,776	168,222	281	7,749
Total primary government	\$ 5,286,325	\$ 914,498	\$ 2,131,098	\$ 537,475	\$ (1,703,254)
Component units:					
Housing Authority	\$ 50,061	\$ 437	\$ 48,947	\$ -	(677)
Facility Finance Authority	348	680	-	-	332
State Compensation Insurance (New Fund)	202,265	173,605	-	-	(28,660)
State Compensation Insurance (Old Fund)	16,658	-	-	-	(16,658)
Montana State University	471,019	198,135	191,171	10,258	(71,455)
University of Montana	405,165	182,128	133,236	15,010	(74,791)
Total component units	\$ 1,145,516	\$ 554,985	\$ 373,354	\$ 25,268	\$ (191,909)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
Changes in net assets:				
Net (expense) revenue	\$ (1,711,003)	\$ 7,749	\$ (1,703,254)	(191,909)
General revenues:				
Taxes:				
Property	241,961	-	241,961	-
Fuel	209,348	-	209,348	-
Natural resource	305,471	-	305,471	-
Individual income	810,108	-	810,108	-
Corporate income	121,801	-	121,801	-
Other (Note 1)	308,703	21,797	330,500	-
Unrestricted grants and contributions	-	-	-	893
Settlements	38,747	27	38,774	-
Unrestricted investment earnings	155,419	4,642	160,061	120,778
Payment from State of Montana	-	-	-	254,707
Gain (loss) on sale of capital assets	3,209	-	3,209	142
Miscellaneous	2,919	637	3,556	62
Contributions to term and permanent endowments	-	-	-	8,145
Transfers	40,547	(40,547)	-	-
Total general revenues, contributions, and transfers	2,238,233	(13,444)	2,224,789	384,727
Change in net assets	527,230	(5,695)	521,535	192,818
Total net assets - July 1 - as previously reported	6,941,737	194,720	7,136,457	1,311,252
Prior period adjustments (Note 2)	(120,628)	(2,360)	(122,988)	(3,725)
Total net assets - July 1 - as restated	6,821,109	192,360	7,013,469	1,307,527
Total net assets - June 30	\$ 7,348,339	\$ 186,665	\$ 7,535,004	1,500,345

The notes to the financial statements are an integral part of this statement.

BALANCE SHEET
GOVERNMENTAL FUNDS
 JUNE 30, 2011
(amounts expressed in thousands)

	SPECIAL REVENUE			PERMANENT			
				COAL			
	GENERAL	STATE	FEDERAL	SEVERANCE	LAND	NONMAJOR	TOTAL
				TAX	GRANT		
ASSETS							
Cash/cash equivalents (Note 3)	\$ 382,920	\$ 791,110	\$ 66,657	\$ 38,463	\$ 17,629	\$ 74,845	1,371,624
Receivables (net) (Note 4)	218,217	113,458	13,996	10,153	57,007	7,116	419,947
Interfund loans receivable (Note 12)	45,960	61,878	39	-	-	-	107,877
Due from other governments	11,504	934	205,140	-	-	-	217,578
Due from other funds (Note 12)	50,819	7,847	-	1	-	1,037	59,704
Due from component units	-	296	-	87	-	615	998
Inventories	2,473	20,531	-	-	-	-	23,004
Equity in pooled investments (Note 3)	-	412,200	-	688,102	501,052	259,907	1,861,261
Long-term loans/notes receivable	65	322,566	7,100	-	-	27,222	356,953
Advances to other funds (Note 12)	1,250	19,066	-	-	-	8,696	29,012
Advances to component units	-	3,046	-	8,381	-	5,667	17,094
Investments (Note 3)	16,367	116,831	1,475	170,696	186	17,282	322,837
Securities lending collateral (Note 3)	-	48,019	328	41,501	29,987	23,350	143,185
Other assets	2,396	6,744	207	-	-	-	9,347
Total assets	\$ 731,971	\$ 1,924,526	\$ 294,942	\$ 957,384	\$ 605,861	\$ 425,737	4,940,421
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable (Note 4)	203,854	89,580	138,773	-	3,767	3,424	439,398
Interfund loans payable (Note 12)	-	7,778	98,958	-	-	-	106,736
Due to other governments	38	57,188	3,111	-	-	-	60,337
Due to other funds (Note 12)	897	36,369	478	4,310	426	1,977	44,457
Due to component units	22,673	664	1,563	-	-	-	24,900
Advances from other funds (Note 12)	-	21,790	3,930	-	-	18,191	43,911
Deferred revenue	109,569	33,687	12,660	-	52,704	497	209,117
Amounts held in custody for others	25,062	13,691	63	-	198	-	39,014
Securities lending liability (Note 3)	-	48,019	328	41,501	29,987	23,350	143,185
Other liabilities	521	296	-	-	-	-	817
Total Liabilities	362,614	309,062	259,864	45,811	87,082	47,439	1,111,872
Fund balances (Note 14):							
Nonspendable	2,891	21,435	-	531,339	516,772	252,760	1,325,197
Restricted	-	1,046,555	35,078	-	2,007	22,663	1,106,303
Committed	-	547,285	-	380,234	-	77,342	1,004,861
Assigned	24,591	2,157	-	-	-	25,542	52,290
Unassigned	341,875	(1,968)	-	-	-	(9)	339,898
Total fund balances	369,357	1,615,464	35,078	911,573	518,779	378,298	3,828,549
Total liabilities and fund balances	\$ 731,971	\$ 1,924,526	\$ 294,942	\$ 957,384	\$ 605,861	\$ 425,737	4,940,421

The notes to the financial statements are an integral part of this statement.

**Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets**

June 30, 2011

(Amounts expressed in thousands)

	(A)	(B)	(C)	(D)	(E)		
	Total	Internal	Capital	Debt	Other	Statement	
	Governmental	Service	Assets	Related	Measurement	of Net	
	Fund	Fund	Balances	Balances	Focus	Assets	
					Adjustments	Elimination	Totals
ASSETS:							
Cash and cash equivalent	\$ 1,371,624	\$ 100,255	\$ -	\$ -	(1)	\$ -	1,471,878
Receivables	419,947	1,124	-	-	-	-	421,071
Interfund loans receivable	107,877	355	-	-	-	(108,232)	-
Due from other governments	217,578	2	-	-	1	-	217,581
Due from other funds	59,704	216	-	-	2	(59,922)	-
Due from component units	998	3	-	-	2	-	1,003
Inventories	23,004	3,915	-	-	3	-	26,922
Internal Balances	-	-	-	-	-	(8,718)	(8,718)
Equity in pooled investments	1,861,261	-	-	-	(1)	-	1,861,260
Securities lending collateral	143,185	5,448	-	-	1	-	148,634
Advances to other funds	29,012	-	-	-	-	(29,012)	-
Advances to component units	17,094	-	-	-	-	-	17,094
Investments	322,837	39,253	-	-	(2)	-	362,088
Deferred charges	-	-	-	-	3,391	-	3,391
Capital assets	-	93,993	4,361,472	-	0	-	4,455,465
Long-term loans/notes receivable	356,953	-	-	-	-	-	356,953
Other assets	9,347	849	-	-	(3)	-	10,193
Total assets	\$ 4,940,421	\$ 245,413	\$ 4,361,472	\$ -	3,393	\$ (205,884)	\$ 9,344,815
LIABILITIES							
Current Liabilities							
Accounts payable	439,398	10,010	-	-	28,466	-	477,874
Interfund loans payable	106,736	1,462	-	-	-	(108,198)	-
Due to other government	60,337	-	-	-	-	-	60,337
Due to other funds	44,457	1,858	-	-	-	(46,315)	-
Due to component units	24,900	-	-	-	(22,959)	-	1,941
Advances from other funds	43,911	3,156	-	-	4,304	(51,371)	-
Estimated future claim contribution to component unit	-	-	-	-	64,621	-	64,621
Deferred revenue	209,117	1,378	-	-	(173,852)	-	36,643
Amounts held in custody for others	39,014	1	-	-	2	-	39,017
Securities lending liability	143,185	5,448	-	-	1	-	148,634
Other current liabilities	817	-	-	-	2,430	-	3,247
Long term liabilities							
Due within one year	-	19,592	-	127,578	(2)	-	147,168
Due in more than one year	-	19,438	-	841,851	(2)	-	861,287
OPEB implicit rate subsidy	-	8,714	-	146,992	1	-	155,707
Total liabilities	1,111,872	71,057	-	1,116,421	(96,990)	(205,884)	1,996,476
NET ASSETS							
Invested in capital assets, net of related debt	-	93,450	4,332,128	(241,415)	(5,820)	-	4,178,343
Restricted for:							
General government	13,146	-	-	(2,459)	307	-	10,994
Transportation	116,353	-	29,344	(137,135)	101,377	-	109,939
Health and human services	22,025	-	-	(28,276)	6,251	-	-
Natural resources	634,957	-	-	(273,403)	(39,705)	-	321,849
Public safety	290,768	-	-	(255,462)	44,636	-	79,942
Education	29,054	-	-	(2,018)	(1,911)	-	25,125
Funds held as permanent investments:							
Nonexpendable	1,325,197	-	-	-	(31,698)	-	1,293,499
Expendable	-	-	-	-	451,631	-	451,631
Unrestricted	1,397,049	80,906	-	(176,253)	(424,685)	-	877,017
Total net assets	\$ 3,828,549	\$ 174,356	\$ 4,361,472	\$ (1,116,421)	\$ 100,383	\$ -	\$ 7,348,339

Differences between the Balance Sheet- Governmental Funds and Governmental Activities on the Government Wide Statement of Net Assets

- (A) Internal services funds (ISF): Management uses ISF to report the charges for and the costs of goods and services sold by state agencies solely within the state. Because the sales are primarily to governmental funds, the assets, liabilities and the net assets of the ISF are included in the governmental activities on the government-wide Statement of Net Assets. ISF are reported using proprietary fund-type accounting in the fund-level financial statements.
- (B) Capital assets balances: Capital assets used in governmental activities are not financial resources, and therefore, they are not included in the fund level financial statements. However, Capital assets are economic resources and are reported in the government-wide Statement of Net Assets.
- (C) Debt related balances: Long term liabilities such as leases, bonds, notes, mortgages, and certificate of participation (including accrued interest) are not due and payable in the current period, and therefore, they are not included in the fund –level financial statements. However, from an economic perspective these liabilities reduce net assets and are reported in the Statement of Net Assets. The portion reported as current in the reconciliation is payable within the following fiscal year. The largest portion of the long-term balance is related to Pollution Remediation, Bonds/Notes Payables and OPEB implicit rate subsidy.
- (D) Other measurement focus adjustments include:
 - Interfund balances receivable from or payable to Fiduciary funds are reported on the fund- level Balance Sheet- Governmental funds as due from/to other funds. On the government –wide Statement of Net Assets, these amounts are considered external receivables and payables.
 - Long-term assets and long-term taxes receivable are not available to pay for current period expenditures; therefore, the related revenue is reported as deferred revenue on the fund-level Balance Sheet- Governmental funds. From an economic perspective, this revenue is earned and the related deferred revenue is removed from the government –wide Statement of Net Assets when the revenue is recognized on the government-wide statement of Activities.
 - Compensated absences are a GAAP modification of the full accrual basis of accounting similar to claims and judgments discussed above. Therefore, both the current and long-term portions of the liability are shown on the government – wide statement of Net Assets, but they are not reported on the fund-level Balance Sheet- Governmental Funds.
- (E) Internal balances: All interfund activities such as Interfund loan receivable\payables, due from\due to and advances to\from other fund balances shown on the fund-level Balance Sheet –Governmental Funds are reported as internal balances. Per GAAP these balances should be eliminated from the governmental-wide Statement of Net Assets to avoid double counting.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**GOVERNMENTAL FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

(amounts expressed in thousands)

	SPECIAL REVENUE			PERMANENT		NONMAJOR	TOTAL
	GENERAL	STATE	FEDERAL	COAL SEVERANCE TAX	LAND GRANT		
REVENUES (Note 14)							
Licenses/permits	\$ 118,749	\$ 167,396	\$ -	\$ -	1,435	\$ -	287,580
Taxes:							
Natural resource	136,550	130,169	-	29,220	-	9,589	305,528
Individual income	798,590	-	-	-	-	-	798,590
Corporate income	120,240	2	-	-	-	-	120,242
Property	227,085	14,876	-	-	-	-	241,961
Fuel	-	209,348	-	-	-	-	209,348
Other	206,699	102,519	-	-	-	1,835	311,053
Charges for services/fines/forfeits/settlements	43,616	92,655	42,785	-	-	12,086	191,142
Investment earnings	3,907	33,480	295	50,041	29,962	25,513	143,198
Securities lending income	379	832	13	650	483	275	2,632
Sale of documents/merchandise/property	329	3,984	1	-	9,186	3,708	17,208
Rentals/leases/royalties	20	759	-	-	69,543	-	70,322
Contributions/premiums	(7)	20,692	-	-	-	-	20,685
Grants/contracts/donations	4,313	18,825	263	-	38	-	23,439
Federal	34,039	11,425	2,292,626	-	-	-	2,338,090
Federal indirect cost recoveries	208	46,473	54,471	-	-	-	101,152
Other revenues	327	1,918	192	-	-	-	2,437
Total revenues	1,695,044	855,353	2,390,646	79,911	110,647	53,006	5,184,607
EXPENDITURES							
Current:							
General government	248,681	257,214	135,730	-	-	1,998	643,623
Public safety/corrections	253,553	78,156	14,961	-	-	-	346,670
Transportation	358	180,713	90,316	-	-	-	271,387
Health/social services	342,080	133,118	1,280,277	-	-	2,158	1,757,633
Education/cultural	781,841	85,933	340,748	-	-	16	1,208,538
Resource/recreation/environment	29,471	160,635	79,169	-	3,618	2	272,895
Debt service:							
Principal retirement	710	666	113	-	-	32,485	33,974
Interest/fiscal charges	67	847	12	-	-	15,436	16,362
Capital outlay	1,247	105,586	406,970	-	7,372	44,768	565,943
Securities lending	81	194	3	148	110	64	600
Total expenditures	1,658,089	1,003,062	2,348,299	148	11,100	96,927	5,117,625
Excess of revenue over (under) expenditures	36,955	(147,709)	42,347	79,763	99,547	(43,921)	66,982
OTHER FINANCING SOURCES (USES)							
Inception of lease/installment contract	19	17	-	-	-	-	36
Insurance proceeds	-	4,326	-	-	-	-	4,326
General capital asset sale proceeds	131	887	-	-	3,112	-	4,130
Refunding bond issued	-	10,180	-	-	-	-	10,180
Payment to refunding bond escrow agent	-	(10,700)	-	-	-	(362)	(11,062)
Bond premium	-	767	-	-	-	-	767
Bond proceeds	-	30,450	-	-	-	550	31,000
Transfers in (Note 12)	87,944	166,307	2,935	393	1	93,786	351,366
Transfers out (Note 12)	(77,510)	(36,605)	(45,414)	(34,366)	(75,684)	(47,355)	(316,934)
Total other financing sources (uses)	10,584	165,629	(42,479)	(33,973)	(72,571)	46,619	73,809
Net change in fund balances	47,539	17,920	(132)	45,790	26,976	2,698	140,791
Fund balances - July 1 - as previously reported	327,006	1,534,855	32,114	865,783	501,342	426,756	3,687,856
Prior period adjustments (Note 2)	(6,740)	60,232	3,096	-	(9,539)	(51,156)	(4,107)
Fund balances - July 1 - as restated	320,266	1,595,087	35,210	865,783	491,803	375,600	3,683,749
Increase (decrease) in inventories	1,552	2,457	-	-	-	-	4,009
Fund balances - June 30	\$ 369,357	\$ 1,615,464	\$ 35,078	\$ 911,573	\$ 518,779	\$ 378,298	\$ 3,828,549

The notes to the financial statements are in integral part of this statement.

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities**

JUNE 30, 2011

(amounts expressed in thousands)

	(A)		(B)		(C)	(D)	Statement
	Total	Internal	Capital	Long	Other	Statement	
	Governmental	Service	Related	Term	Measurement	Of	
	Fund	Fund	Items	Debt	Focus	Activities	
				Transactions		Total	
REVENUES							
License/permits (Charges for Services)	\$ 287,580	\$ -	\$ -	\$ -	(782)	\$ 286,798	
Taxes:							
Natural resources	305,528	-	-	-	(57)	305,471	
Individual income	798,590	-	-	-	11,518	810,108	
Corporate income	120,242	-	-	-	1,559	121,801	
Property	241,961	-	-	-	-	241,961	
Fuel	209,348	-	-	-	-	209,348	
Other (Note 1)	311,053	-	-	-	(2,350)	308,703	
Charges for services/fines/forfeits/settlements	191,142	-	-	-	720	191,862	
Investment earnings (Unrestricted Investments)	143,198	893	-	-	11,328	155,419	
Securities lending income (Unrestricted investment)	2,632	-	-	-	(2,632)	-	
Sale of documents/merchandise/property	17,208	-	-	-	(654)	16,554	
Rentals/leases/royalties (Charges for Services)	70,322	-	-	-	-	70,322	
Contributions/premiums (Charges for Services)	20,685	-	-	-	10	20,695	
Insurance proceeds	4,326	-	-	-	(88)	4,238	
Gain (loss) on sale of capital assets	-	-	3,209	-	-	3,209	
Operating grants and donations	23,439	-	-	-	198	23,637	
Federal (Operating Grants)	2,338,090	-	-	-	(500,003)	1,838,087	
Federal indirect cost recoveries	101,152	-	-	-	-	101,152	
Capital grants and contributions	-	-	-	-	537,194	537,194	
Other revenues	2,437	254	-	-	228	2,919	
Total revenues	5,188,933	1,147	3,209	-	56,189	5,249,478	
EXPENDITURES							
Current:							
Current	4,500,746	(16,156)	39,614	-	222,277	4,746,481	
Debt service							
Principal	33,974	-	-	(33,974)	-	-	
Interest/fiscal charges	16,362	203	-	(251)	-	16,314	
Capital outlay	565,943	-	(565,943)	-	-	-	
Securities lending	600	16	-	-	(616)	-	
Total expenditures	5,117,625	(15,937)	(526,329)	(34,225)	221,661	4,762,795	
Excess of revenue over (under) expenditures	71,308	17,084	529,538	34,225	(165,472)	486,683	
OTHER FINANCING SOURCES (USES)							
Inception of lease/installment contract	36	-	-	(36)	-	-	
General capital asset sale proceeds	4,130	-	-	(4,130)	-	-	
Refunding bonds issued	10,180	-	-	(10,180)	-	-	
Payment to refunding bond escrow agent	(11,062)	-	-	11,062	-	-	
Bond premium	767	-	-	(767)	-	-	
Bond proceeds	31,000	-	-	(31,000)	-	-	
Transfers (Note 12)	34,432	5,628	-	-	486	40,547	
Total other financing sources (uses)	69,483	5,628	-	(35,050)	486	40,547	
Net change in fund balance	\$ 140,791	\$ 22,713	\$ 529,538	\$ (825)	\$ (164,986)	\$ 527,230	

Differences between the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds and Governmental Activities on the Government –Wide Statement of Activities

- (A) Internal service funds (ISF): Management uses the ISF to report charges for and the costs of goods and services sold by state agencies solely within the state. ISF are intended to operate on the cost reimbursement basis and should break even each period. If an ISF makes a profit, the other funds of the state have been overcharged. If an ISF has an operating loss the other funds of the state have been undercharged. In order to show the true cost of services purchased from ISF, an adjustment is made that allocates the net revenue/expense of each ISF to the programs that purchased the services. Investment income, debt service, and transfers of the ISF are not allocated.
- (B) Capital related items: The following adjustments relate to capital assets:
- Capital assets, received as donations, are not reported on the fund-level Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds because they are not current financial resources. However, such donations increase net assets and are reported on both the government – wide Statement of Net Assets and Statement of Activities.
 - Depreciation is not reported on the fund-level Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds, but it is reported for the economic perspective on which the government –wide Statement of Activities is presented.
 - Expenditures reported for capital outlay on the fund-level Statement of Revenues, Expenditures and changes in Fund Balances - Governmental Funds are generally reported as a conversion of cash to a capital asset on the government wide Statement of Net Assets. They are not reported as expenses on the government –wide Statement of Activities.
 - On the fund –level Statement of Revenues, Expenditures, and Changes in fund Balances - Governmental Funds all cash received on disposal of capital assets is reported as a gain on sale of capital assets. On the government-wide Statement of Activities the reported gain or loss on sale is based on the carrying value of the assets as well as the cash received.
- (C) Long term debt: The following adjustments relate to debt issuance and debt service including leases:
- Payments on principal and debt refunding payments are reported as expenditures and other financing uses, respectively on the fund-level Statement of Revenues, Expenditures, and Changes in Fund Balances – governmental Funds. These payments are reported as reduction of lease, bonds and other debt liability balances on the government – wide Statement of Net Assets are not reported on the government – wide Statement of Activities.
 - Amortization of issuance cost, debt premium/discount, gains/loss on refunding debts are not reported on the fund-level Statement of Revenues, Expenditures, and Changes in Fund Balances- - Governmental Funds, but are reported on the government – wide state of Activities.
 - Lease proceeds, issuance of debt, and debt refunding proceeds are all reported as other financing sources at the fund level Statement of Revenues, Expenditures, and Changes in fund Balances – Governmental Funds. From an economic perspective lease proceeds, debt issuances, and debt refunding proceeds reported as liabilities on the government-wide Statement of Net Assets and are not reported on the government – wide Statement of Activities.
- (D) Other measurement focus adjustments include;
- Long-term taxes receivable and certain other long-term assets are offset by deferred revenue and are not part of fund balance on the fund-level Balance Sheet - Governmental Funds; however, from a full accrual perspective, changes in the fund –level deferred revenue balances result in adjustments to revenue that are recognized and reported on the government-wide Statement of Activities.
 - Expenditures that primarily benefit present period are classified as current expenditures. In governmental funds, capital outlays are included as part of the current expenditures for each functional activity within that fund.

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

JUNE 30, 2011

(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT	NONMAJOR	TOTAL	
		BONDS			
ASSETS					
Current assets:					
Cash/cash equivalents (Note 3)	\$ 94,759	\$ 22,408	\$ 88,721	\$ 205,888	\$ 100,255
Receivables (net) (Note 4)	9,897	7,781	24,215	41,893	1,124
Interfund loans receivable (Note 12)	-	-	3	3	355
Due from other governments	2,565	-	527	3,092	2
Due from other funds (Note 12)	-	2,899	3	2,902	216
Due from component units	-	1,764	-	1,764	3
Inventories	-	-	3,360	3,360	3,915
Short-term investments (Note 3)	-	983	-	983	-
Securities lending collateral (Note 3)	-	5	987	992	5,448
Other current assets	-	-	87	87	849
Total current assets	107,221	35,840	117,903	260,964	112,167
Noncurrent assets:					
Advances to other funds (Note 12)	-	17,980	75	18,055	-
Advances to component units	-	9,949	-	9,949	-
Long-term investments (Note 3)	-	1,301	1,285	2,586	39,253
Long-term notes/loans receivable	-	36,321	273	36,594	-
Deferred charges	-	1,394	-	1,394	-
Other long-term assets	-	-	1,981	1,981	-
Capital assets (Note 5):					
Land	-	-	800	800	236
Land improvements	-	-	3,830	3,830	95
Buildings/improvements	-	-	7,454	7,454	4,704
Equipment	-	4	8,366	8,370	224,868
Infrastructure	-	-	951	951	-
Construction in progress	-	-	2,703	2,703	7,244
Intangible assets	-	-	51	51	1,067
Other Depreciable Assets	-	-	3,206	3,206	-
Less accumulated depreciation	-	(4)	(11,398)	(11,402)	(144,221)
Total capital assets	-	-	15,963	15,963	93,993
Total noncurrent assets	-	66,945	19,577	86,522	133,246
Total assets	107,221	102,785	137,480	347,486	245,413

STATEMENT OF NET ASSETS**PROPRIETARY FUNDS**

JUNE 30, 2011

(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL
	UNEMPLOYMENT INSURANCE	ECONOMIC	NONMAJOR	TOTAL	ACTIVITIES -
		DEVELOPMENT BONDS			INTERNAL SERVICE FUNDS
LIABILITIES					
Current liabilities:					
Accounts payable (Note 4)	\$ 6,404	\$ 172	\$ 11,194	\$ 17,770	10,010
Lottery prizes payable	-	-	1,731	1,731	-
Interfund loans payable (Note 12)	12	-	25	37	1,462
Due to other governments	-	-	21	21	-
Due to other funds (Note 12)	-	-	12,205	12,205	1,858
Deferred revenue	6	-	5,197	5,203	1,378
Lease/installment purchase payable (Note 10)	-	-	80	80	138
Short-term debt (Note 11)	-	95,530	-	95,530	-
Bonds/notes payable - net (Note 11)	-	60	-	60	-
Amounts held in custody for others	-	-	20	20	1
Securities lending liability (Note 3)	-	5	987	992	5,448
Estimated insurance claims (Note 8)	-	-	9,769	9,769	16,151
Compensated absences payable (Note 11)	-	21	822	843	3,302
Arbitrage rebate tax payable (Note 11)	-	11	-	11	-
Total current liabilities	6,422	95,799	42,051	144,272	39,748
Noncurrent liabilities:					
Lottery prizes payable	-	-	1,526	1,526	-
Advances from other funds (Note 12)	-	-	-	-	3,156
Lease/installment purchase payable (Note 10)	-	-	302	302	405
Bonds/notes payable - net (Note 11)	-	135	-	135	-
Estimated insurance claims (Note 8)	-	-	11,130	11,130	16,211
Compensated absences payable (Note 11)	-	4	706	710	2,823
OPEB implicit rate subsidy (Note 7)	-	49	2,697	2,746	8,714
Total noncurrent liabilities	-	188	16,361	16,549	31,309
Total liabilities	6,422	95,987	58,412	160,821	71,057
NET ASSETS					
Invested in capital assets, net of related debt	-	-	15,581	15,581	93,450
Restricted for:					
Unemployment Compensation	100,799	-	-	100,799	-
Other Purposes	-	2,974	54,962	57,936	-
Unrestricted	-	3,824	8,525	12,349	80,906
Total net assets	\$ 100,799	\$ 6,798	\$ 79,068	\$ 186,665	174,356

The notes to the financial statements are an integral part of this statement

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(amounts expressed in thousands)

	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
Operating revenues:					
Charges for services	\$ -	\$ 18	\$ 133,578	\$ 133,596	\$ 131,043
Investment earnings	4,392	91	215	4,698	831
Securities lending income	-	-	35	35	63
Financing income	-	1,550	-	1,550	-
Contributions/premiums	137,439	-	91,488	228,927	141,398
Grants/contracts/donations	124,791	-	41,790	166,581	2,992
Other operating revenues	-	-	915	915	2,462
Total operating revenues	266,622	1,659	268,021	536,302	278,789
Operating expenses:					
Personal services	-	168	13,404	13,572	49,261
Contractual services	-	30	15,653	15,683	21,573
Supplies/materials	-	5	64,761	64,766	26,483
Benefits/claims	277,547	9	117,952	395,508	117,394
Depreciation	-	-	884	884	11,493
Amortization	-	-	34	34	432
Utilities/rent	-	44	1,021	1,065	14,551
Communications	-	9	1,302	1,311	11,798
Travel	-	1	212	213	253
Repairs/maintenance	-	-	962	962	10,430
Lottery prize payments	-	-	24,778	24,778	-
Securities lending expense	-	-	7	7	16
Arbitrage rebate tax	-	(1)	-	(1)	-
Dividend expense	-	-	750	750	-
Interest expense	-	837	23	860	193
Other operating expenses	539	24	2,564	3,127	4,618
Total operating expenses	278,086	1,126	244,307	523,519	268,495
Operating income (loss)	(11,464)	533	23,714	12,783	10,294
Nonoperating revenues (expenses):					
Tax revenues	-	-	21,797	21,797	-
Insurance proceeds	-	-	-	-	254
Gain (loss) on sale of capital assets	-	-	(9)	(9)	86
Federal indirect cost recoveries	-	-	-	-	6,449
Total nonoperating revenues (expenses)	-	-	21,788	21,788	6,789
Income (loss) before contributions and transfers	(11,464)	533	45,502	34,571	17,083
Capital contributions	-	-	317	317	2,410
Transfers in (Note 12)	-	-	54	54	5,466
Transfers out (Note 12)	(1,584)	-	(39,053)	(40,637)	(2,248)
Change in net assets	(13,048)	533	6,820	(5,695)	22,711
Total net assets - July 1 - as previously reported	116,530	6,265	71,925	194,720	149,087
Prior period adjustments (Note 2)	(2,683)	-	323	(2,360)	2,558
Total net assets - July 1 - as restated	113,847	6,265	72,248	192,360	151,645
Total net assets - June 30	\$ 100,799	\$ 6,798	\$ 79,068	\$ 186,665	\$ 174,356

The notes to the financial statements are in integral part of this statement.

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STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from sales and services	\$ 134,926	\$ 18	\$ 225,145	\$ 360,089	\$ 274,900
Payments to suppliers for goods and services	(539)	(113)	(121,835)	(122,487)	(94,497)
Payments to employees	-	(167)	(13,413)	(13,580)	(51,897)
Grant receipts	123,576	-	41,793	165,369	2,992
Cash payments for claims	(276,067)	-	(80,443)	(356,510)	(109,738)
Cash payments for prizes	-	-	(25,314)	(25,314)	-
Other operating revenues	1	-	895	896	9,267
Other operating payments	-	-	(1,108)	(1,108)	-
Net cash provided by (used for) operating activities	(18,103)	(262)	25,720	7,355	31,027
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Collection of taxes	-	-	21,762	21,762	-
Transfers to other funds	(1,584)	-	(42,970)	(44,554)	(2,248)
Transfers from other funds	-	-	335	335	5,467
Proceeds from interfund loans/advances	-	-	47	47	1,473
Payments of interfund loans/advances	12	-	(45)	(33)	(4,540)
Payment of principal and interest on bonds and notes	-	(1,472)	(94)	(1,566)	(697)
Payment of bond issuance costs	-	1	-	1	-
Net cash provided by (used for) noncapital financing activities	(1,572)	(1,471)	(20,965)	(24,008)	(545)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from insurance	-	-	-	-	254
Acquisition of capital assets	-	-	(232)	(232)	(7,554)
Proceeds from sale of capital assets	-	-	36	36	-
Net cash used for capital and related financing activities	-	-	(196)	(196)	(7,300)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investments	-	(1,505)	615	(890)	(4,424)
Proceeds from sales or maturities of investments	-	2,757	2,207	4,964	-
Proceeds from securities lending transactions	-	-	35	35	63
Interest and dividends on investments	4,392	125	366	4,883	829
Payment of securities lending costs	-	-	(7)	(7)	(16)
Collections of principal and interest on loans	-	24,162	-	24,162	-
Cash payment for loans	-	(18,239)	-	(18,239)	-
Net cash provided by (used for) investing activities	4,392	7,300	3,216	14,908	(3,548)
Net increase (decrease) in cash and cash equivalents	(15,283)	5,567	7,775	(1,941)	19,634
Cash and cash equivalents, July 1	110,042	16,841	80,946	207,829	80,621
Cash and cash equivalents, June 30	\$ 94,759	\$ 22,408	\$ 88,721	\$ 205,888	\$ 100,255

The notes to the financial statements are an integral part of this statement.

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES --	
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	INTERNAL SERVICE FUNDS	
Reconciliation of operating income to net cash provided by operating activities:						
Operating income (loss)	\$ (11,464)	\$ 533	\$ 23,714	\$ 12,783	\$	10,294
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:						
Depreciation	-	-	884	884		11,494
Amortization	-	-	34	34		432
Interest expense	-	837	23	860		193
Securities lending expense	-	-	7	7		16
Investment Earnings	(4,393)	(91)	(368)	(4,852)		(829)
Securities lending income	-	-	(35)	(35)		(63)
Financing income	-	(1,550)	-	(1,550)		-
Federal indirect cost recoveries	-	-	-	-		6,449
Arbitrage rebate tax	-	(1)	-	(1)		-
Change in assets and liabilities:						
Decr (incr) in accounts receivable	(2,962)	-	1,346	(1,616)		1,737
Decr (incr) in due from other funds	1,344	-	1	1,345		1,654
Decr (incr) in due from component units	(2,545)	-	33	(2,512)		(3)
Decr (incr) in due from other governments	-	-	426	426		4
Decr (incr) in inventories	-	-	17	17		(1,428)
Decr (incr) in other assets	-	-	507	507		1,711
Incr (decr) in accounts payable	1,916	3	(1,223)	696		(5,527)
Incr (decr) in lottery prizes payable	-	-	(536)	(536)		-
Incr (decr) in due to other funds	-	-	(377)	(377)		(47)
Incr (decr) in due to other governments	-	-	(25)	(25)		-
Incr (decr) in deferred revenue	1	-	(1,372)	(1,371)		100
Incr (decr) in amounts held in custody for others	-	-	-	-		2
Incr (decr) in compensated absences payable	-	(1)	(40)	(41)		10
Incr (decr) in OPEB implicit rate subsidy	-	8	655	663		2,150
Incr (decr) in estimated claims	-	-	2,049	2,049		2,678
Net cash provided by (used for) operating activities	\$ (18,103)	\$ (262)	\$ 25,720	\$ 7,355	\$	31,027
Schedule of noncash transactions:						
Capital asset acquisitions from contributed capital	-	-	36	36		2,410
Capital contributions from other funds	-	-	281	281		-
Incr (decr) in fair value of investments	-	16	-	16		-
Total noncash transactions	\$ -	\$ 16	\$ 317	\$ 333	\$	2,410

STATEMENT OF FIDUCIARY NET ASSETS**FIDUCIARY FUNDS**

JUNE 30, 2011

(amounts expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE- PURPOSE TRUST FUNDS	INVESTMENT TRUST	AGENCY FUNDS
ASSETS				
Cash/cash equivalents (Note 3)	\$ 135,574	\$ 156,155	\$ 408,172	\$ 11,666
Receivables (net):				
Accounts receivable	23,883	-	-	457
Interest	11,821	5	97	-
Due from primary government	22,959	-	-	-
Due from other PERB plans	667	-	-	-
Long-term loans/notes receivable	12	-	-	-
Total receivables	59,342	5	97	457
Investments at fair value:				
Equity in pooled investments (Note 3)	7,681,835	-	-	-
Other investments (Note 3)	439,292	96,146	7,050	5
Total investments	8,121,127	96,146	7,050	5
Securities lending collateral (Note 3)	387,980	306	5,525	4
Capital Assets:				
Land	35	-	-	-
Buildings/improvements	158	-	-	-
Equipment	148	-	-	-
Accumulated depreciation	(226)	-	-	-
Intangible assets	143	-	-	-
Total capital assets	258	-	-	-
Other assets	6	29,136	-	13,376
Total assets	8,704,287	281,748	420,844	25,508
LIABILITIES				
Accounts payable	1,267	9	97	323
Due to other PERB plans	666	-	-	-
Deferred revenue	3,708	-	-	-
Amounts held in custody for others	5	1,184	-	25,181
Securities lending liability (Note 3)	387,980	306	5,525	4
Compensated absences payable	450	-	-	-
OPEB implicit rate subsidy	562	-	-	-
Total liabilities	394,638	1,499	5,622	25,508
NET ASSETS				
Held in trust for pension benefits				
and other purposes	\$ 8,309,649	\$ 280,249	\$ 415,222	\$ -

The notes to the financial statements are an integral part of this statement.

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(amounts expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE- PURPOSE TRUST FUNDS	INVESTMENT TRUSTS
ADDITIONS			
Contributions/premiums:			
Employer	\$ 184,427	\$ -	\$ -
Employee	185,035	-	-
Other contributions	43,040	28,921	807,664
Net investment earnings:			
Investment earnings	1,510,571	14,055	919
Administrative investment expense	(42,943)	-	(110)
Securities lending income	3,187	11	173
Securities lending expense	(885)	(2)	(37)
Charges for services	690	-	-
Other additions	431	6,829	-
Total additions	1,883,553	49,814	808,609
DEDUCTIONS			
Benefits	543,648	-	-
Refunds	19,111	-	-
Distributions	-	57,651	751,928
Administrative expenses:			
Personal services	3,383	-	-
Contractual services	3,109	1,677	-
Supplies/materials	201	-	-
Depreciation	21	-	-
Amortization	193	-	-
Utilities/rent	317	-	-
Communications	205	-	-
Travel	71	-	-
Repair/maintenance	18	-	-
Grants	-	1	-
Other operating expenses	224	-	-
Local assistance	15	-	-
Transfers to ORP	140	-	-
Transfers to PERS-DCRP	609	-	-
Total deductions	571,265	59,329	751,928
Change in net assets	1,312,288	(9,515)	56,681
Net assets - July 1 - as previously reported	6,997,316	289,764	358,591
Prior period adjustments (Note 2)	45	-	(50)
Net assets - July 1 - as restated	6,997,361	289,764	358,541
Net assets - June 30	\$ 8,309,649	\$ 280,249	\$ 415,222

The notes to the financial statements are an integral party of this statement.

COMBINING STATEMENT OF NET ASSETS**COMPONENT UNITS**

JUNE 30, 2011

(amounts expressed in thousands)

	HOUSING AUTHORITY	FACILITY FINANCE AUTHORITY	MONTANA STATE FUND (NEW FUND)	MONTANA STATE FUND (OLD FUND)
ASSETS				
Cash/cash equivalents (Note 3)	\$ 145,370	\$ 2,985	\$ 19,715	17
Receivables (net)	20,112	271	58,105	16
Due from primary government	-	-	-	-
Due from other governments	103	-	-	-
Due from component units	-	-	-	-
Estimated future claims contributions from primary government	-	-	-	64,621
Inventories	-	-	-	-
Long-term loans/notes receivable	636,551	904	-	-
Equity in pooled investments (Note 3)	-	-	-	-
Investments (Note 3)	136,723	50	1,203,149	-
Securities lending collateral (Note 3)	5	39	89,190	-
Deferred charges	5,570	-	-	-
Other assets	226	-	49,059	-
Capital assets (net) (Note 5)	3	-	34,720	-
Total assets	944,663	4,249	1,453,938	64,654
LIABILITIES				
Accounts payable	4,155	11	15,282	109
Due to primary government	-	-	-	-
Due to component units	-	-	-	-
Due to other governments	-	-	-	-
Advances from primary government	-	-	-	-
Deferred revenue	-	-	37,369	-
Amounts held in custody for others	-	-	2,775	-
Securities lending liability (Note 3)	5	39	89,190	-
Other liabilities	-	-	-	-
Long-term liabilities (Note 11):				
Due within one year	137,302	12	110,516	9,888
Due in more than one year	646,430	20	824,873	54,733
OPEB implicit rate subsidy (Note 7)	245	20	3,405	-
Total liabilities	788,137	102	1,083,410	64,730
NET ASSETS				
Invested in capital assets, net of related debt	3	-	34,720	-
Restricted for:				
Funds held as permanent investments:				
Nonexpendable	-	-	-	-
Housing authority	156,523	-	-	-
Other purposes	-	-	-	-
Unrestricted	-	4,147	335,808	(76)
Total net assets	\$ 156,526	\$ 4,147	\$ 370,528	(76)

The notes to the financial statements are an integral part of this statement.

	MONTANA STATE UNIVERSITY	UNIVERSITY OF MONTANA	TOTAL
\$	166,375	\$ 81,495	\$ 415,957
	13,130	17,822	109,456
	998	943	1,941
	14,119	8,606	22,828
	51	297	348
	-	-	64,621
	3,423	1,930	5,353
	29,522	9,808	676,785
	15,555	16,947	32,502
	164,620	206,976	1,711,518
	2,311	1,619	93,164
	-	1,618	7,188
	7,252	5,457	61,994
	369,434	359,191	763,348
	786,790	712,709	3,967,003
	33,312	24,496	77,365
	1,715	1,052	2,767
	297	51	348
	-	15	15
	17,103	9,941	27,044
	9,311	14,873	61,553
	5,983	1,886	10,644
	2,311	1,619	93,164
	5,770	4,483	10,253
	18,991	15,981	292,690
	144,903	142,802	1,813,761
	40,127	33,257	77,054
	279,823	250,456	2,466,658
	246,121	226,563	507,407
	109,663	141,638	251,301
	-	-	156,523
	70,208	63,571	133,779
	80,975	30,481	451,335
\$	\$ 506,967	\$ 462,253	\$ 1,500,345

COMBINING STATEMENT OF ACTIVITIES**COMPONENT UNITS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

(amounts expressed in thousands)

	HOUSING AUTHORITY	FACILITY FINANCE AUTHORITY	MONTANA STATE FUND (NEW FUND)	MONTANA STATE FUND (OLD FUND)
EXPENSES	\$ 50,061	\$ 348	\$ 202,265	\$ 16,658
PROGRAM REVENUES:				-
Charges for services	437	680	173,605	-
Operating grants and contributions	48,947	-	-	-
Capital grants and contributions	-	-	-	-
Total program revenues	49,384	680	173,605	-
Net (expenses) program revenues	(677)	332	(28,660)	(16,658)
GENERAL REVENUES:				
Unrestricted grants and contributions	-	-	-	-
Unrestricted investment earnings	-	65	82,238	75
Payment from State of Montana	-	-	-	64,671
Gain (loss) on sale of capital assets	-	-	14	-
Miscellaneous	-	-	59	3
Contributions to term and permanent endowments	-	-	-	-
Total general revenues and contributions	-	65	82,311	64,749
Change in net assets	(677)	397	53,651	48,091
Total net assets - July 1 - as previously reported	157,203	3,750	316,877	(48,167)
Prior period adjustments (Note 2)	-	-	-	-
Total net assets - July 1 - as restated	157,203	3,750	316,877	(48,167)
Total net assets - June 30	\$ 156,526	\$ 4,147	\$ 370,528	(76)

The notes to the financial statements are an integral part of this statement.

MONTANA STATE UNIVERSITY	UNIVERSITY OF MONTANA	TOTAL
\$ 471,019 \$	405,165 \$	1,145,516
198,135	182,128	554,985
191,171	133,236	373,354
10,258	15,010	25,268
399,564	330,374	953,607
(71,455)	(74,791)	(191,909)
893	-	893
3,744	34,656	120,778
105,859	84,177	254,707
130	(2)	142
-	-	62
2,664	5,481	8,145
113,290	124,312	384,727
41,835	49,521	192,818
465,660	415,929	1,311,252
(528)	(3,197)	(3,725)
465,132	412,732	1,307,527
\$ 506,967 \$	462,253 \$	1,500,345

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements for the State of Montana have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

A separate legal entity reported as a component unit of the State of Montana, the Montana State Fund (State Fund), issued a financial report for fiscal year 2011 that State management believes does not comply with GAAP, as required under State statute. The State Fund financial statements do not report the Old Fund activity for which they are primarily liable, as required under GAAP. The Montana Legislative Auditor's Office (LAD) issued an "unqualified" opinion on this report that does not include the Old Fund financial reporting. Management does not believe that this provides the complete reporting for the State Fund required under GAAP. It is our opinion, to adjust the State Fund financial statements included in this report, to comply with the LAD recommended presentation, would violate State law, compromise consistency in financial statement reporting and be misleading to the financial statement users.

We do agree that the State primary government is required to report the liability to the State Fund for the obligation to provide funding for the related claims payments to State Fund and have recorded this in the government wide financial statements along with the related receivable in the State Fund, Old Fund, component unit financial statements. The reporting of the liability relating to the primary government obligation to the State Fund was never at issue with LAD.

In summary, management does not agree with the LAD recommended State Fund reporting change, and related qualification, because:

1. The legal liability for the Old Fund claims has not been transferred from the State Fund to the State of Montana, primary government, and, as a result GAAP requires that the State Fund continue reporting the contractual obligation to the related claimants. Management confirmed that the legal liability remains with the State Fund in a legal opinion issued by the Department of Administration (DofA) Chief Legal Counsel and a letter of advice from the Attorney General. Management requested the State Fund and LAD provide a legal opinion supporting the change in reporting as included in the State Fund financial statements. Neither of these entities provided a legal opinion, although LAD provided a legal letter that was considered in the DofA attorney's legal opinion.
2. State Law, MCA 17-1-102(2) and (4) and 17-2-110(3) require the State's accounting system and financial reports be in compliance with GAAP. Because it is management's opinion this LAD recommended reporting presentation is not in compliance with GAAP, management cannot present the CAFR in this format.
3. The related recommended audit adjustment would have resulted in misleading component unit statements in the CAFR. The recommended change would have removed an activity the State Fund is legally liable for, from the related component unit financial statements, and only reported this in the State of Montana financial reports. This would have been misleading to the financial statement users because it informs them that the liability no longer belongs to the State Fund.
4. The State Fund's presentation is not consistent with that of previous years. After the formation of the State Fund additional money was provided to fund the Old Fund liability through payments (transfers) to the State Fund from the primary government. Transferring additional funds to the State Fund, to pay their liability is consistent with the past practice, that provided the previous funding, and should be reported in the same manner. The fact that a specific primary revenue source is no longer involved should not have an impact on the reporting of this activity in the State Fund financial statements.
5. In addition to the resources provided to the State Fund, for the Old Fund liability in 2011, the primary government funded a significant amount of component unit financial activity. This includes \$105.9 million of the Montana State University expenditures (22.5%), \$84.2 million of the University of Montana expenditures (20.1%), and \$1.6 million (100%) of the Volunteer Fire Fighters Compensation Act Fund. The State also funds a substantial portion of the local government K-12 education expenditures, a significant amount of the Community College funding, and many other activities throughout the State, both as part of the appropriation process and as direct revenue and cash distributions. The act of funding does not require management to report these activities, of separate legal entities, as liabilities of the State of Montana primary government.

Management confirmed with GASB staff that the legal liability absolutely determines the financial reporting, through their technical inquiry process. As a result we firmly believe our interpretation of their Standards is correct, as discussed above. LAD did not accept the GASB staff interpretation.

A. Reporting Entity

For financial reporting purposes, the State of Montana has included all funds which comprise the State of Montana (the primary government) and its component units. The component units are entities for which the State is financially accountable, or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.

Discretely Presented Component Units

These component units are entities that are legally separate from the State because they possess corporate powers, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. Complete financial statements of the individual component units, which issue separate financial statements, can be obtained from their respective administrative offices. The component unit columns of the combined financial statements include the financial data of the following entities.

Housing Authority – This authority, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor. It was created in 1975 to facilitate the availability of decent, safe, and sanitary housing to persons and families of lower income. The board issues negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any time may not exceed \$1.5 billion. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. The authority is audited annually by the State's Legislative Audit Division. The report is issued under separate cover and available at 301 South Park, Room 240, PO Box 200528, Helena, MT 59620-0528.

Facilities Finance Authority – This authority, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor with the advice and consent of the Senate. The authority assists all eligible, non-profit Montana health care and other community-based service providers to obtain and maintain access to the broadest range of low-cost capital financing as possible. The board issues revenue bonds to fulfill its purposes. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. Individual audit reports are issued every two years by the State's Legislative Audit Division. The report is issued under separate cover and available at 2401 Colonial Drive, 3rd Floor, PO Box 200506, Helena, MT 59620-0506.

Montana State Fund (New Fund and Old Fund) - Though reported in separate columns, The Montana State Fund (New Fund) and the State Fund (Old Fund) are one legally separate entity, thus a single component unit with separate accounting funds. State Fund is a nonprofit, independent public corporation governed by a board of directors appointed by the Governor. State Fund is audited annually by the State's Legislative Audit Division. The report is issued under separate cover and available at 855 Front Street, Helena, MT 59604.

New Fund provides workers compensation insurance for claims incurred after June 30, 1990, and is financed by member (employer) premiums. The New Fund is audited annually by the State's Legislative Audit Division. The report is issued under separate cover and available at 855 Front Street, Helena, MT 59604.

Old Fund covers worker compensation claims that were incurred before July 1, 1990. Administrative operations and budgets may be reviewed by the Governor and the Legislature, but they have no authority over budgets or costs. In any fiscal year that Old Fund claims are not adequately funded, any amount necessary to pay claims must be transferred from the general fund to Old Fund. For the fiscal year ended June 30, 2011, the general fund was required to transfer \$50,000 to the State Fund to support their activities to settle Old Fund claims.

Universities and Colleges – The State Board of Regents has responsibility for the following institutions: The University of Montana - Missoula and the units under it including Montana Tech of the University of Montana, The University of Montana - Western and The University of Montana - Helena College of Technology; and Montana State University - Bozeman and the units under it including Montana State University - Billings, Montana State University - Northern, and the Montana State

University College of Technology - Great Falls. All units are funded through state appropriations, tuition, federal grants, and private donations and grants. The universities are audited annually by the State's Legislative Audit Division. The reports are issued under separate cover and are available at the President's Office on each of the campuses or by contacting the Commissioner of Higher Education, 2500 Broadway Street, Helena, MT 59620-3201.

Though the following organizations perform functions related to the higher education units, they are not considered part of Montana's reporting entity: (1) Community Colleges which are considered part of local units of government; (2) the Montana Higher Education Student Assistance Corporation, a private non-profit corporation; and (3) the Student Assistance Foundation of Montana, a private non-profit corporation. Entities such as local school districts and local authorities of various kinds are considered part of local units of government and have not been included. The State and Federal support of local public education systems is reported in the General Fund, the State Special Revenue Fund and Federal Special Revenue Fund (for The American Recovery and Reinvestment Act (ARRA) funds in FY10 and FY11).

Fiduciary Fund Component Units

Teachers Retirement System (Pension Trust Fund) – This retirement plan is a legally separate entity with a board appointed by the Governor. Its purpose is to provide retirement, disability, death and lump-sum payments to members of Montana's public teaching profession. The administrative costs of the Teachers Retirement System are paid from investment earnings of the fund. The plan is funded from employer and employee contributions and investment earnings, and the State's General Fund. The board is a discretely presented component unit. The plan is audited annually by the State's Legislative Audit Division. Its report is issued under separate cover and is available at 1500 East Sixth Avenue, PO Box 200139, Helena, MT 59620-0139.

Public Employees' Retirement Board (Pension and Other Employee Benefit Trust Funds) – The board is appointed by the Governor and administers ten separate retirement plans for the purpose of providing retirement, disability, death, and lump-sum payments to plan members. These legally separate plans include the Public Employees' Retirement Plan – Defined Benefit and Defined Contribution and the associated education funds; the Judges'; the Highway Patrol Officers'; the Sheriffs'; the Game Wardens' and Peace Officers'; the Municipal Police Officers'; and the Firefighters' Unified Retirement Systems; as well as the Volunteer Firefighters' Compensation Act. The board also administers the State of Montana Deferred Compensation Program (457 Plan).

The Public Employees' Retirement System (PERS) includes the Public Employees' Defined Benefit Retirement Plan and the Public Employees' Defined Contribution Retirement Plan, and is funded by member and employer contributions, investment earnings and contributions from the state General Fund. The PERS also accounts for the administrative costs, paid from investment earnings, of the plan. These are allocated out to all plans. The Judges' Retirement System is funded by member and state employer contributions, and investment earnings. The Highway Patrol Officers' Retirement System is funded by member and state employer contributions, state contributions, and investment earnings. The Sheriffs' Retirement System is funded by member and employer contributions, and investment earnings. The Game Wardens' and Peace Offices' Retirement System is funded by member and employer contributions, and investment earnings. The Municipal Police Officers' Retirement System is funded by member and employer contributions, state General Fund contributions, and investment earnings. The Firefighters' Unified Retirement System is funded by employee and employer contributions, and investment earnings, as well as state General Fund contributions from a portion of insurance premium taxes collected by the State of Montana. The Volunteer Firefighters' Compensation Act is funded by the state contributions, from the State General Fund, of a percentage of fire insurance premium taxes collected. The State of Montana Deferred Compensation Program is funded by member contributions and investment earnings; there are two employers, Great Falls Transit and the Town of Whitehall, that contribute to the program on behalf of their employees.

The board is a discretely presented component unit responsible for the ten separate public employee retirement plans including the Deferred Compensation Program. These are reported as pension and other employee benefit trust funds. The board is audited annually by the State's Legislative Audit Division. Its report is issued under separate cover and is available at 100 North Park, Suite 200, PO Box 200131, Helena, MT 59620-0131.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the State of Montana and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported

by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the State of Montana is reported separately from certain legally separate component units for which the State is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Certain indirect costs are included in the program expense reported for the individual functions and activities. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Taxes and other revenues not meeting the definition of program revenues are reported as general revenues.

Separate fund financial statements are provided for governmental, proprietary, and fiduciary funds. Fiduciary fund statements are reported only in the fund financial statements. Major individual governmental and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide, Proprietary, and Fiduciary Fund Financial Statements

The government-wide, proprietary fund, and fiduciary fund (except for agency fund) financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are reported when earned; expenses are recorded when a liability is incurred regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all of the eligibility requirements imposed by the provider are met. Agency funds have no measurement focus. These funds report only assets and liabilities, recognizing receivables and payables using the accrual basis of accounting.

Governmental Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are realizable, measurable, earned, and available. Revenue is considered realizable when it is probable the amount will be collected. Revenue is considered measurable and realizable if the precise amount is known because the transaction is completed, or if there is enough information to provide a reasonable estimate of the net realizable revenue to be received. Revenue is considered to have been earned when the exchange of goods or services has taken place. Revenue is considered to be available if it is collectible within the current period, or soon enough thereafter, to pay liabilities of the current period. For this purpose, the State considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures relating to compensated absences and claims and judgments are recorded only when payment is due.

The major revenue sources considered susceptible to accrual are licenses and permits, natural resource taxes, individual income taxes, corporate income taxes, property taxes, fuel taxes, and certain federal revenues (reimbursable grants and U.S. mineral royalties). All other revenue is considered to be measurable and available when the cash is received.

Fund Financial Statements

The State uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

The financial activities of the State of Montana are classified into fund categories as described below:

Governmental Funds

General Fund – To account for all governmental financial resources, except those required to be accounted for in another fund.

Special Revenue Funds – To account for the proceeds of specific revenue sources restricted to expenditure for specified purposes other than major capital projects. (1)The State Special Revenue Fund accounts for activities funded from state sources, which are restricted either legally or administratively for particular costs of an agency, program, or function. (2)The Federal Special Revenue Fund accounts for activities funded from federal sources used in the operation of state government.

Debt Service Funds – To account for resources accumulated for payment of principal and interest on general long-term obligation debt.

Capital Projects Funds – To account for resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary or trust funds.

Permanent Funds – To account for resources that are permanently restricted to the extent those only earnings, not principal, may be used for the purposes of supporting the government's programs.

Proprietary Funds

Enterprise Funds – To account for operations (1) financed and operated similar to private business enterprises, where the intent of the Legislature is to finance or recover costs primarily through user charges; (2) where the Legislature has decided periodic determination of revenue earned, expenses incurred, or net income is appropriate; (3) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; (4) when laws or regulations require that the activities' costs of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. The primary focus of fee revenues charged by enterprise funds is users outside of the primary government.

Internal Service Funds – To account for the financing of goods and services provided by one department or agency to other departments, agencies, or other governmental entities on a cost-reimbursement basis.

The State of Montana reports two employee group benefits funds. The MUS Group Insurance Fund primarily charges its fees to Montana State University and the University of Montana. The universities are reported as discretely presented component units, which the State considers to be external users, and as such, reports the MUS Group Insurance Fund as an enterprise fund. The Employee Group Benefits Fund charges its fees to funds of the primary government, and as such, is reported as an internal service fund.

Fiduciary Funds

To account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, or other governments. These assets cannot be used to support the government's own programs.

Pension (and Other Employee Benefit) Trust Funds – These funds report resources that are required to be held in trust for the members and beneficiaries of the State's defined benefit plans, defined contribution plans, other retirement plans such as firefighters, police officers, teachers etc., and other post employment benefit plans. Plan members receive retirement, disability, death, and lump-sum payments from the fund. For detail on the individual plans, see Note 6.

Private-Purpose Trust Funds – These funds are used to account for assets held by the State in a trustee capacity, where both the principal and earnings benefit individuals, private organizations, or other governments. Examples include the State's escheated property fund, unliquidated security bonds held on deposit from self-insured employers, environmental reclamation bonds held in trust, and others.

Investment Trust Fund – This fund accounts for the receipt of monies by the Montana Board of Investments for investment in the Short-term Investment Pool (STIP), an external investment pool, and the distribution of related investment earnings to local government agencies.

Agency Funds – Account for assets held by the State as an agent for individuals, private organizations, and other governments. For example, various agencies including State Auditor, Fish, Wildlife and Parks, and the Department of Natural Resources and Conservation hold deposits pending compliance with performance agreements. Other examples include monies belonging to state institution residents and child support payments from parents.

Major Governmental Funds

The General Fund is the State's primary operating fund, as previously defined.

The State Special Revenue Fund accounts for activities funded from state sources, which are restricted either legally or administratively for particular costs of an agency, program, or function.

The Federal Special Revenue Fund accounts for activities funded from federal sources used in the operation of state government.

The Coal Tax Trust Permanent Fund, created by Article IX, Section 5 of the Montana State Constitution, receives 50% of all coal tax collections. The principal in this fund can be expended only upon affirmative vote of three-fourths of each house of the Legislature.

The Land Grant Permanent Fund accounts for lands granted to the State for support of public schools and state institutions.

Major Enterprise Funds

The Unemployment Insurance Fund accounts for employer contributions deposited with the Secretary of the Treasury of the United States to the credit of the State's unemployment trust fund. Unemployment benefits are paid from this fund to eligible recipients.

The Economic Development Bonds Fund (EDB) accounts for the Economic Development Bond Act programs and the Municipal Finance Consolidation Act programs. These programs assist Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions. Separately issued EDB financial statements may be obtained by contacting the Montana Board of Investments, 2401 Colonial Drive, 3rd Floor, PO Box 200126, Helena, MT 59620-0126.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed by both the government-wide and proprietary fund financial statements to the extent they do not conflict with or contradict guidance of GASB. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds. The State has elected not to follow subsequent private sector guidance.

As a general rule, material interfund revenues have been eliminated from the government-wide financial statements. These have not been eliminated where their elimination would distort the direct costs and program revenues of the functions involved.

The State does not allocate indirect expenses to functions in the Statement of Activities.

D. Proprietary Activity Accounting and Financial Reporting

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating.

E. Cash/Cash Equivalents

For all funds, cash and cash equivalents consist of amounts deposited in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in the Short-term Investment Pool (STIP), cash held by trustees, undeposited cash held by individual state agencies, and investments categorized as cash equivalents, which are short-term, highly liquid investments with original maturities of three months or less. For 2011, certain investments in STIP were reclassified as long-term investments. (See Note 3 Cash/Cash Equivalents).

F. Receivables

This classification, net of estimated uncollectibles, consists primarily of receivables for goods sold and services provided; short-term loans and notes; interest and dividends; taxes due within 60 days of fiscal year-end; and income, withholding, and inheritance taxes that are past due. An allowance for uncollectible taxes is provided based upon historical analysis. Further detail relating to receivables is provided in Note 4.

G. Inventories

Inventories of materials and supplies are stated at cost. The State allows agencies to use any generally accepted inventory pricing method, but specifies the first-in, first-out method should be appropriate for most agencies.

Governmental funds use the "purchase method," meaning inventory purchases are recorded as expenditures. At fiscal year-end, significant amounts of inventory are shown as nonspendable, indicating they do not constitute available expendable resources.

Proprietary and fiduciary funds report using the "consumption method," meaning inventories are expensed as used.

H. Restricted Net Assets

Certain investments of the Economic Development Bonds Enterprise Fund are classified as restricted net assets on the Statement of Net Assets for Proprietary Funds because their use is limited by applicable bond indenture agreements.

I. Equity in Pooled Investments

The Montana Board of Investments manages the State's Unified Investment Program, which includes several internal investment pools. Participation in the pools is restricted to permanent funds, private-purpose trust funds, investment trust funds, pension trust funds, Montana University System Units, and specific funds established within the State Special Revenue Fund. The participant investments in the pools are reported at fair value in the assets within the individual funds (See Note 3 on Cash/Cash Equivalents and Investments).

J. Investments

In accordance with the Montana Constitution and the statutorily mandated "Prudent Expert Rule," the State of Montana invests in various types of securities for each portfolio it manages. Certain securities including asset-backed securities, variable-rate instruments, zero-coupon bonds, preferred stocks, and mortgage-backed securities are purchased for portfolio diversification and a competitive rate of return. Most investments are reported at fair value in the Balance Sheet or Statement of Net Assets. Investments are reported by type in the disclosure of custodial credit risk for each investment portfolio (See Note 3 on Cash/Cash Equivalents and Investments).

K. Capital Assets

Capital asset valuation is based on actual historical cost or, in the case of donations, fair market value on the date donated. General government infrastructure capital assets are capitalized and reported in the government-wide financial statements. Infrastructure assets of proprietary funds are capitalized on the fund financial statements. Interest incurred during the construction of capital assets for proprietary funds and higher education units is capitalized. The State has chosen to use the depreciation approach for infrastructure assets and is reporting accumulated depreciation in the Statement of Net Assets and depreciation expense in the Statement of Activities for these assets.

Capital assets in proprietary, private-purpose trust, and pension trust funds are accounted for within their respective funds and are depreciated. Depreciation is on a straight-line basis with estimated useful lives of 25 to 60 years for buildings, 7 to 20 years for building improvements, 3 to 10 years for equipment, and 10 to 50 years for infrastructure. State agencies are also required to extend or shorten the useful lives of capital assets to reflect their actual experience or industry standards when appropriate.

The capitalization limit for buildings and building/land improvements is \$25,000. The capitalization threshold for infrastructure and internally generated software is \$500,000. The capitalization limit for intangibles is \$100,000. Agencies are allowed to capitalize additions to collections and land acquisitions at any cost. The capitalization limit for other capital assets is set at \$5,000. Purchases under these thresholds are recorded as expenditures/expenses in the current period.

L. Deferred Revenue

Deferred revenue in the government-wide, proprietary fund and fiduciary fund financial statements relates to unearned revenue. A liability for unearned revenue is recorded when assets are recognized in connection with a transaction prior to the earnings process being completed.

Deferred revenue in the governmental fund financial statements relates to both unearned revenue (as discussed above) and unavailable revenue. A liability for unavailable revenue is recorded when assets are recognized in connection with a transaction, but those assets are not considered available to finance expenditures of the current fiscal period.

M. Long-term Obligations

Long-term obligations expected to be financed from governmental funds are reported in the government-wide financial statements. Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from current expendable available financial resources is reported as a fund liability of a governmental fund in the fund financial statements. The remaining portion of such obligations is reported in the government-wide financial statements.

Long-term liabilities expected to be financed from proprietary and fiduciary fund operations are accounted for in those funds. (See Note 10—Leases/Installment Purchases Payable and Note 11—State Debt.)

N. Capital Leases

A capital lease is generally defined by Governmental Accounting Standards Board (GASB) Statement 62, as one which transfers benefits and risks of ownership to the lessee. At the inception of a capital lease, in the government-wide, proprietary fund, and fiduciary fund financial statements, a capital asset and a capital lease liability are recorded at the present value of the future minimum lease payments. In the governmental fund financial statements, because the modified accrual basis of accounting is used, no asset or liability is recorded related to assets under capital leases. Rather, in the governmental fund financial statements, at the inception of a capital lease, capital outlay expenditure and a other financing source (inception of lease/installment contract) are recorded at the net present value of the minimum lease payments.

O. Bond Discounts/Premiums/Issuance Costs

Bond premiums and discounts, as well as issuance costs, are recognized in the current period for governmental funds in the fund financial statements. Bond proceeds and bond premiums are reported as an other financing source, and bond discounts are reported as another financing use. Issuance costs are reported as debt service expenditures whether or not they are withheld from the bond proceeds. In proprietary fund types and in governmental funds as presented in the government-wide financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds, which approximates the effective interest method. Bonds payable are recorded net of any applicable premium or discount, while issuance costs are reported as deferred charges.

P. Compensated Absences

Full-time state employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Teachers employed by the State do not receive vacation leave. Vacation leave may be accumulated and carried over from one year to the next. The carryover is limited to two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Each contribution year, an employee may contribute a maximum of 80 hours of sick or annual leave to a nonrefundable sick leave pool. Excess annual leave that is being forfeited can also be contributed, with no maximum contribution. Based on a review, the adjusted ending balance of the pool for June 30, 2010 as revised, was 13,311 hours. For fiscal year 2011, 1,306 sick leave hours, 402 annual leave hours, and 6,518 excess annual leave hours were contributed to the sick leave pool, and 2,901 hours were withdrawn, leaving a balance of 19,629 hours in the pool. No liability is reported in the accompanying financial statements because these hours are nonrefundable to contributors, except by grants approved through an application process.

Vested or accumulated leave for proprietary and fiduciary funds is recorded as an expense and liability of those funds in the fund financial statements. For governmental funds, the liability is not expected to be liquidated with expendable financial resources. The expenditure and liability for the governmental funds is reported only in the government-wide financial statements. Upon retirement or termination, an employee is paid for 100% of unused vacation leave and 25% of unused sick leave.

Q. Fund Balance/Net Assets

Fund Balance

As discussed in further detail in Note 2, the State of Montana early implemented Governmental Accounting Standards Board (GASB) Statement No. 54. As a result, the classifications for fund balance now used for governmental funds are reported in two general classifications, nonspendable and spendable.

Nonspendable represents the portion of fund balance that is not in spendable form such as inventories, and, in the general fund, long term notes and loans receivable. Spendable fund balance is further categorized as restricted, committed, assigned, and unassigned.

The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by the State constitution and external parties, such as the federal government, or through enabling legislation. For the purpose of determining restricted amounts, enabling legislation does not include commitments resulting from state legislation because these can be removed or changed by the same type of action.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority, the state's legislature, through legislation passed into law.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. Assignments of fund balance are created by the executive branch. An example of an assignment is money deposited into an account within the State Special Revenue fund by the executive branch and later appropriated by the legislature. The revenue source is not restricted or committed by legislation but is assigned by executive branch management and later appropriated by the legislature for a specific purpose. In governmental funds other than the general fund, assigned fund balance also represents the remaining amount that is not restricted or committed. Also included in the assigned fund balance for the general fund are assignments for the portion of current general fund balance that is projected to be used to fund expenditures and other cash outflows in excess of the expected revenues and other cash inflows in fiscal year 2012, and encumbrances.

Unassigned fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The State of Montana generally segregates restricted, committed, and assigned resources by account (sub-fund) within the governmental funds, other than the general fund. When resources meeting more than one of these spendable classifications are comingled in an account on the state's accounting system the assumed order of spending is restricted first, committed second, and finally assigned. State statute requires non-general fund money be spent first whenever possible so any related available unassigned balance would be spent last.

Minimum General Fund - Fund Balance

The state does not maintain a stabilization fund. However, statute provides a minimum fund balance amount as follows: § 17-7-140, MCA, defines minimum ending fund balance (i.e. "deficit" or 1% of expenditures) and specifies the procedures that must be followed to make expenditure reductions if a projected ending fund balance drops below minimum statutory requirements.

The law requires; if the Budget Director determines that a deficit exists, reductions must be made to assure that the projected ending fund balance is at least 1% of general fund appropriations for the biennium. Under circumstances when a deficit is projected during a biennium, the Governor may direct reductions from any general fund expenditure not exempted by § 17-7-140, MCA, including HB 2 (the State's main appropriation bill), any other appropriation bills, statutory appropriations, or

language appropriations. Reductions may not exceed 10% of general fund appropriations for any single “program,” as defined in HB 2. If a program has more than one appropriation, the reduction for one or more of the appropriations may exceed 10% as long as the reduction for the program as a whole does not exceed 10%.

The Legislative and Judicial branches, the Montana School for the Deaf and Blind, principal and interest on state debt, salaries of elected officials, and public school BASE funding are exempt, statutorily, from reductions. These exemptions shield approximately 35% of general fund appropriations from reduction. Of the remaining expenditures, the Governor may not direct executive agencies headed by elected officials or the Board of Regents to reduce their expenditures by more than the average reduction percentage imposed upon all other executive branch agencies.

Net Assets

In funds other than governmental, net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The government-wide Statement of Net Assets reported restricted net assets (in thousands) of \$2,451,714.

R. Property Taxes

Real property taxes are normally levied in October and are normally payable in two installments on November 30 and May 31. These taxes attach as an enforceable lien immediately if not paid when due.

Personal property tax levies are set each August, and notices are normally mailed the following March or April. Half of mobile home taxes are due in 30 days and the remaining half on September 30. Taxes on all other types of personal property are to be paid in full 30 days after receipt of the notice.

Personal property taxes attach as an enforceable lien immediately if not paid when due. Property taxes are collected by each of Montana's 56 counties. The counties then remit the State's portion to the State Treasury. The majority of these taxes help fund public school systems and higher education.

S. Other Taxes

On the Statement of Activities, the revenue category “Other Taxes” consists of the following taxes (in thousands):

	General Fund	State Special Revenue Fund	Other Governmental Funds	Business Type	Total
Accommodations	\$ 13,578	\$ 18,673	\$ -	\$ 7	\$ 32,258
Agriculture sales	-	6,703	-	-	6,703
Cigarette/tobacco	36,503	47,311	1,835	-	85,649
Contractors Gross					
Receipts	6,806	-	-	-	6,806
Energy Tax	8,016	-	-	-	8,016
Fire protection	-	3,596	-	-	3,596
Insurance premium	55,798	9,990	-	-	65,788
Liquor tax	5,005	1,943	-	21,790	28,738
Livestock	-	3,522	-	-	3,522
Other taxes	7,753	4,724	-	-	12,477
Public Service					
Commission	-	4,706	-	-	4,706
Telephone license	22,404	-	-	-	22,404
Video gaming	49,827	10	-	-	49,837
Total other taxes	\$ 205,690	\$ 101,178	\$ 1,835	\$ 21,797	\$ 330,500

NOTE 2. OTHER ACCOUNTING ISSUES

A. New Accounting Guidance Implemented

For the year ended June 30, 2010, the State of Montana early implemented the provisions of GASB Statement No. 54 - "Fund Balance Reporting and Governmental Fund Type Definitions". The objective of Statement No. 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of resources reported in governmental funds. The clarifications of the governmental fund type definitions should reduce uncertainty about which resources can or should be reported in the respective fund types. These new classifications include nonspendable and spendable, which is further reported as restricted, committed, assigned and unassigned. The new fund balance classifications and the minimum fund balance disclosure provided in Statement 54 are discussed in detail in footnote 1, section Q. Statement 54 requires the disclosure of the purpose of every major special revenue fund in the financial statement notes. This additional disclosure is provided in footnote 14.

For the year ended June 30, 2011, the State of Montana implemented the provisions of GASB Statement No. 64 - "Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53". The objective of Statement No. 64 is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied.

For the year ended June 30, 2011, the State of Montana implemented the provisions of GASB Statement No. 59 - "Financial Instruments Omnibus". The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice.

For the year ended June 30, 2011, the State of Montana implemented the provisions of GASB Statement No. 57 - "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans". The objective of this Statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). In addition, this Statement clarifies that when actuarially determined OPEB measures are reported by an agent multiple-employer OPEB plan and its participating employers, those measures should be determined as of a common date and at a minimum frequency to satisfy the agency multiple-employer OPEB plan's financial reporting requirements.

B. Prior Period Adjustments

Prior period adjustments reported in the accompanying financial statements relate to corrections of errors or changes in accounting policy from prior periods. The most significant of these adjustments affected the governmental activities column in the Statement of Activities related to Montana Department of Transportation infrastructure corrections. Other prior period adjustments were to asset management by the Department of Justice. Additional adjustments were permanent funds whose constraints were internally imposed and were reclassified as state special revenue funds for reporting purposes as shown below (amounts in thousands).

Fund	2010 Permanent				2011 State Special Revenue Committed
	Nonspendable	Restricted	Committed	Total prior- period adjustment	
Real Property Trust	\$ 548	\$ 5,155	\$ -	\$ 5,703	\$ 5,913
Coal Tax – FWP Trust	2,173	18,937	-	21,110	22,240
Real Prop– Wild Habitat	1,014	8,420	-	9,434	10,176
Older Montanan Trust	-	-	9,480	9,480	10,116
Cultural Trust	11,627	-	-	11,627	12,162
Endowment for Children	-	-	1,225	1,225	1,301
Noxious Weed Income	-	633	-	633	744
Totals	\$ 15,362	\$ 33,145	\$ 10,705	\$ 59,212	\$ 62,652

NOTE 3. CASH/CASH EQUIVALENTS AND INVESTMENTS

This note details the following asset classifications (in thousands):

Cash/cash equivalents	\$ 2,805,290
Equity in pooled investments	\$ 9,575,597
Investments	\$ 2,619,668

Carrying amounts for the bank balance for Cash Deposits and fair values for the State's cash equivalents and investments are presented in Tables 1 through 4.

A. General

(1) Cash and cash equivalents consist of funds deposited by individual funds in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in the Short-term Investment Pool (STIP), cash held by trustees, undeposited cash held by individual state agencies, and investments categorized as cash equivalents.

Cash deposited with the State Treasurer's pooled cash account is invested by the Montana Board of Investments (BOI) in short-term securities and other investments. Because these funds are immediately available to the individual funds, their investment in the pooled cash account is reported as a cash equivalent. In addition to the State Treasurer's pooled cash account, there is the STIP maintained by the BOI. This investment fund provides individual state agencies and local governments an opportunity to invest excess cash in a money market fund. Because these pooled funds are invested in short-term, highly liquid investments, the individual fund investments in the STIP are reported as a cash equivalent.

Although STIP, an external investment pool, is not registered with the Securities and Exchange Commission (SEC) as an investment company, the BOI has as policy that STIP is managed in a manner consistent with the SEC Rule 2a7. As a 2a7-like pool, the STIP utilizes an amortized cost unit value to report net assets. The portfolio may include asset-backed securities, commercial paper, corporate, U.S. government direct obligations, U.S. government agency securities, repurchase agreements, institutional money market funds, certificates of deposit and variable-rate (floating-rate) instruments. Investments must have a maximum maturity of 397 days or less unless they have rate reset dates. The portfolio is carried at amortized cost or book value with a constant unit value of \$1.00. State agencies that are allowed to retain their interest earnings within their funds are required to invest in STIP. Local government participation in STIP is voluntary. Separately issued external investment pool financial statements may be obtained by contacting the Montana Board of Investments, 2401 Colonial Drive, 3rd Floor, PO Box 200126, Helena, MT 59620-0126.

The State's cash equivalents and investments are detailed in Table 2 - Cash Equivalents, Table 3 - Equity in Pooled Investments, and Table 4 - Investments to disclose the level of investment risk, when applicable, assumed by the State at June 30, 2011.

(2) All securities are reported by investment portfolio and type in Table 2 - Cash Equivalents, Table 3 - Equity in Pooled Investments, and Table 4 - Investments. The State may invest in certain types of securities, including U.S. government direct-backed, U.S. government indirect-backed, corporate stock/bonds, foreign government bonds, common stock, municipals, equity index, preferred stock, convertible equity securities, asset-backed securities, American Depositary Receipts (ADRs), equity derivatives, commingled funds, venture capital, leveraged buyout, mezzanine, diversified real estate portfolio, distressed debt, special situation and secondary investments, and cash equivalents, to provide a diversified investment portfolio and an overall competitive rate of return.

Asset-backed securities are debt securities collateralized by a pool of mortgage and non-mortgage assets such as trade and loan receivables, equipment leases, credit cards, etc. Commercial paper is unsecured short-term debt with maturities ranging from 1 to 270 days. U.S. Government direct-backed securities include direct obligations of the U.S. Treasury and obligations explicitly guaranteed by the U.S. Government. U.S. Government indirect-backed obligations include U.S. Government agency and mortgage-backed securities. Repurchase agreements (REPO) represent an agreement between a seller and a buyer, usually of U.S. Government securities, whereby the seller agrees to repurchase the securities at an agreed upon price and stated time. Variable-rate securities pay a variable rate of interest until maturity. The STIP portfolio's variable-rate securities reset to LIBOR (London Interbank Offered Rate).

Common stock owners may vote on director selection and other important matters and receive dividends if the company pays dividends. Equity index investments are comprised of shares in institutional commingled funds with equity portfolios that match a broad based index or specific industry composite. Preferred stocks pay dividends at a specified rate and have preference in the payment of dividends and liquidation of assets. Preferred stock holders do not usually have voting rights.

Convertible securities permit the holder to exchange, or “convert” the instrument for other securities of the issuer or of another issuer. This definition most often applies to preferred stocks or corporate bonds carrying the right to exchange for a fixed number of shares of the issuer’s common stock. ADR investments are receipts issued by a U.S. depository bank representing shares of a foreign stock or bonds held abroad by the foreign sub-custodian of the American depository bank. Equity derivatives, such as futures and options, “derive” their value from underlying equity instruments. An institutional commingled fund combines assets from several institutional investors that are blended or pooled together to reduce management and administration costs. The investor buys shares in the fund.

Venture capital represents private equity investments in early stage financing of rapidly growing companies with an innovative product or service. Leveraged buyouts (LBOs) permit an investment group to acquire a company by leveraging debt, as a financing technique, to establish a significant ownership position on behalf of the company’s current management team. Mezzanine investments are the subordinated debt and/or equity of privately-owned companies. The debt holder participates in equity appreciation through conversion features, such as rights, warrants, and/or options. These investments are made via limited partnership agreements in which BOI and other institutional investors invest as limited partners in funds managed by a general partner. These investments are riskier with higher potential return than public equity investments, and are less liquid because the funds are usually committed for at least ten years. Because of the risk and illiquidity, these investments are limited to sophisticated investors only.

Diversified real estate portfolio includes investments in private core, value-added, and opportunistic real estate. Core investments are the least risky with the lowest return, and are usually managed in commingled accounts in which the investor purchases shares. Value-added and opportunistic real estate investments provide more risk. Opportunistic investments are less liquid than core investments. These investments are usually made through limited partnership agreements.

The value of stocks and bonds are recorded at both “book” and “fair” value. The book or carrying value of a stock is the average cost of the shares held. If the same stock has been purchased several times, the average of the purchase prices is the book value. The book value of bonds is the “amortized” cost, which represents the original cost, adjusted for premium and discount amortization where applicable. If bonds are purchased at more than the par value, the difference is called a premium. If they are purchased for less than par value, the difference is called discount. Premiums and discounts are amortized/accreted using the straight-line or scientific method to the call, average life, or maturity date of the securities. The fair value of publicly traded stocks and bonds is determined by reference to market prices supplied by State Street Bank (the custodial bank). Because a public market does not exist for private equity and real estate investments, the fair value of these investments is the value reported in the most recent external managers’ valuation reports. The book or carrying value of these private investments is the capital invested less capital returned. Except for STIP, all investment portfolios presented in the Statement of Net Asset Value are at “fair” value.

BOI is authorized by law to lend its securities and has contracted with the custodial bank, State Street Bank and Trust, “the Bank”, to lend BOI’s securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Bank is required to maintain collateral equal to 102 percent of the fair value of domestic securities and 105 percent of the fair value of international securities while the securities are on loan. BOI and the Bank split the earnings, 80/20% respectively, on security lending activities. BOI retains all rights and risks of ownership during the loan period.

During fiscal year 2011, the Bank lent BOI public securities and received as collateral: U.S. dollar cash; U.S. Government and government sponsored agency securities; U.S. corporate debt securities and structured securities rated AA-/Aa3 or higher; sovereign debt securities of the G10 nations; and debt securities issued by certain supranational agencies. The Bank does not have the ability to sell collateral securities unless the borrower defaults.

BOI imposed no restrictions on the amount of securities available to lend during fiscal year 2011. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the period that resulted in a declaration and notice of Default of the Borrower. There were no losses during fiscal year 2011 resulting from a borrower default.

During fiscal year 2011, BOI and the borrowers maintained the right to terminate all securities lending transactions on notice. The cash collateral received for each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment fund comprised of a liquidity pool and a duration pool. As of June 30, 2011, the Quality D Short Term Investment Fund liquidity pool had an average duration of 36 days and an average weighted final maturity of 62 days for U.S. dollar collateral. The duration pool had an average duration of 32 days and an average weighted final maturity of 484 days for U.S. dollar collateral. As of June 30, 2011, the Securities Lending Quality Trust liquidity pool had an average duration of 34 days and an average weighted final maturity of 105 days for U.S. dollar collateral. The duration pool had an average duration of 32 days and an average weighted final maturity of 952 days for U.S. dollar collateral. Because the securities lending transactions were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral received from the borrower. At year-end 2011, BOI had no credit risk exposure to borrowers. The private equity and real estate Pools do not participate in securities lending.

B. Cash/Cash Equivalents

(1) Cash Deposits – The State requires collateralization based on the average daily bank balance in the depository bank holding the main State bank account. For other depository banks, state statutes require collateralization at 50% of the bank balance. The cash deposits amount includes both primary government and component unit deposits.

**Table 1 -
Cash Deposit
Amounts
(in thousands)**

	Carrying Amount
Cash held by State/State's agent	\$165,748
Uninsured and uncollateralized cash	1,104
Undeposited cash	381
Cash in U.S. Treasury	94,752
Cash in MSU component units	7,373
Cash in UM component units	7,627
Less: outstanding warrants	(70,129)
Total cash deposits	\$206,856

As of June 30, 2011, the carrying amount of deposits for component units was \$17,310,786, as included in Table 1.

(2) Cash Equivalents – consists of cash in the State Treasury invested by individual funds in the Short-term Investment Pool (STIP), the State Treasurer’s pooled cash account, and in identifiable securities and investments considered to be cash equivalents. Cash equivalents, generally, are short-term, highly liquid investments with original maturities of three months or less. Cash equivalents may be under the control of the Board of Investments (BOI) or other agencies, as allowed by law.

Table 2 - Cash Equivalents
(in thousands)

	Fair Value	Credit Quality Rating	WAM in Days
Asset Backed commercial paper	\$ 326,176	A1	18
Corporate commercial paper	289,335	A1	58
Corporate - fixed	7,174	A1	15
Corporate - variable	522,126	A2	34
Certificate of deposit – fixed	28,012	A3	235
Certificate of deposit – variable	359,994	A2	36
Other asset backed	24,592	BBB	NA
US government agency fixed	100,013	A1+	155
US government agency variable	474,852	A1+	20
Money market fund unrated	378,392	NR	1
Money market fund rated	111,000	A1+	1
Repurchase agreement (1)	15,078	NR	NA
Structured investment vehicles (SIV)	21,726	NR	NA
Less: STIP included in pooled investment balance	(60,036)	NR	NA
Total cash equivalents	<u>\$2,598,434</u>		<u>35</u>
Securities lending collateral investment pool (2)	<u>\$ 32,271</u>	NR	<u>*</u>

(1) As of June 30, 2011, the repurchase agreement was collateralized at 102% for \$15,379,417 by two Federal Loan Mortgage Corporation Gold securities maturing July 1, 2024 and December 1, 2029. These securities carry a AAA credit quality rating.

(2) As of June 30, 2011, the fair value of the cash equivalents was \$180,426,019. Collateral provided for the cash equivalents totaled \$184,182,574, consisting of \$32,271,105 in cash and \$151,911,469 in securities. See also the Table 4 disclosed in Note 3 D – Investments.

* As of June 30, 2011, the Securities Lending Quality Trust liquidity pool has an average duration of 34 days and an average weighted final maturity of 105 days for US dollar collateral. The duration pool had an average duration of 32 days and an average weighted final maturity of 952 days for US dollar collateral.

As of June 30, 2011, local governments invested \$415,221,685 in STIP. As of June 30, 2011, component units of the State of Montana had investments in cash equivalents with a book value and fair value of \$534,220,434.

Investment Risk Disclosures

The investment risk disclosures are described in the following paragraphs and are identified by the specific pools or securities to which they pertain, when applicable.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. This is the risk that the issuer of a fixed income security may default with regard to the timely payment of interest and principal.

As stated in the STIP Investment Policy, “the STIP portfolio will minimize credit risk by:

1. limiting investments to those securities, at time of purchase, with high credit ratings provided by S&P such as A1 for commercial paper, bankers acceptances, certificates of deposits and asset backed securities and AA- for corporate and medium term notes
2. prequalifying the financial institutions, brokers/dealers, intermediaries and advisers with whom the STIP will conduct business; and
3. diversifying the portfolio so potential losses on individual securities will be minimized.”

The U.S. Government securities are guaranteed directly or indirectly by the U.S. Government. Obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk and do not require disclosure of credit quality. The credit ratings presented in the tables below are provided by the S&P rating service. If an S&P rating is not available, a Moody’s rating has been used.

STIP investments are categorized above to disclose credit risk as of fiscal year end. Credit risk reflects the weighted security quality rating, by investment type, as of the June 30 report date. If a security investment type is unrated, the quality type is indicated by NR (not rated). Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated. With the exception of one long-term rating for the Other Asset Backed investment type, short-term rating by the S&P rating services, are presented in Table 2. An A+ rating is the highest short-term rating by the S&P rating service.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the deposits or collateral securities may not be recovered from an outside party. Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, BOI may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2011, all the public securities as well as securities held by the separate public equity account managers were registered in the nominee name for the Montana Board of Investments and held in the possession of BOI’s custodial bank, State Street Bank. The Equity Index funds, US Bank repurchase agreement, real estate, mortgage and loan investments were purchased and recorded in BOI’s name. Commingled fund investments are registered in the name of the Montana Board of Investments. BOI does not have a policy addressing custodial risk for investments.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. Investments explicitly guaranteed by the US government are excluded from the concentration of credit risk requirement. In October 2008, the US government extended the explicit guarantee to certain government agencies such as Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (FHLMC – Freddie Mac). Given the explicit guarantee extension, BOI had no concentration of credit risk exposure to Fannie Mae and Freddie Mac in STIP. Although the STIP Investment Policy does not specify concentration of credit risk exposure, the policy does provide for portfolio limitations by investment type.

The concentration of credit risk for the rated securities is included in the disclosure in Note 3 D (Investments).

Interest Rate Risk

STIP interest rate risk is determined using the weighted average maturity (WAM) method. The WAM measure expresses investment time horizons: the time when investments are due and payable in days, months or years, weighted to reflect the dollar size of individual investments within an investment type. According to the STIP investment policy “the STIP portfolio will minimize interest rate risk by:

1. structuring the investment portfolio so securities mature to meet cash requirements for ongoing operations thereby normally avoiding the need to sell securities on the open market prior to maturity;
2. investing funds primarily in short-term maturities of money market securities; and
3. maintaining a dollar-weighted average portfolio maturity (WAM) of 60 days or less (for this purpose, the date to the next coupon reset date will be used for all floating or variable rate securities).”

Legal and Credit Risk

In January 2007, BOI purchased a \$25 million par issue of Orion Finance USA. In April 2007, BOI purchased two issues of Axon Financial Funding totaling \$90 million par and another \$25 million par issue of Orion Finance USA. As of June 30, 2007, these Structured Investment Vehicle (SIV) securities held in the STIP portfolio carried a combined amortized cost of \$139,991,131 representing 5.02% of the total portfolio. At the time of purchase and as of June 30, 2007, these four issues received the highest investment grade rating of AAA by Standard & Poor's and Aaa by Moody's. Since June 30, 2008 and through June 30, 2010, these issues carried a D rating by Standard & Poor's. On November 20, 2007, an insolvency event was declared by Axon Financial Funding. Orion Finance USA declared an insolvency event on January 14, 2008. On the January and April 2008 maturity dates, these securities matured at their amortized cost of \$140 million. BOI has determined that it is currently in the best interest of the STIP to continue to hold these securities in the investment portfolio. These securities are currently generating cash to be applied to the securities.

For fiscal years 2011 and 2010, BOI received Axon Financial Funding payments on principal of \$10,961,955 and interest compensation of \$481,261 in excess of the accrued interest receivable. Axon Financial Funding payments totaled \$27,451,615 since November 2008. On July 6, 2010, Axon Financial Funding foreclosed with the issuance of a promissory note for \$66,832,436 from AFF Financing LLC with a July 5, 2011 maturity date. Fiscal year 2011 payments from AFF Financing LLC totaled \$7,174,542 consisting of \$7,014,971 in principal and \$159,571 in interest. On June 28, 2011, BOI elected to extend the AFF Financing LLC promissory note maturity date to July 3, 2012. In June and December 2009, BOI applied \$13.5 million, in total, from the STIP reserve to the outstanding principal for the Axon Financial Funding securities. As of June 30, 2011, the AFF Financing LLC, classified as a SIV, has an outstanding amortized cost balance of \$46,317,465. Refer to Note 17 – Subsequent Events for additional information.

On October 14, 2009, BOI received its initial payment from Orion Finance USA. Fiscal years 2011 and 2010 payments from Orion Finance USA included principal of \$13,433,642 and interest compensation of \$1,804,738 in excess of the \$903,922 accrued interest receivable for a total of \$16,142,302. In November 2010, Orion Finance Corporation “granted a security interest in substantially all of its assets (the Collateral) to the Bank of New York Mellon, as Security Trustee”. On December 8, 2010, the Security Trustee conducted “a public sale of 60 structured credit and 7 financial securities including but not limited to asset backed securities, collateralized debt obligations, collateralized loan obligations and residential mortgage backed securities included within the Collateral”. BOI participated in the sale and collectively holds these individual securities as Orion Finance. From December 2010 through June 2011, BOI received principal and interest payments of \$4,474,455 and \$284,619, respectively. In June and December 2009, BOI applied \$7.5 million, in total, from the STIP reserve to the outstanding principal for the Orion Finance USA securities. As of June 30, 2011, the Orion Finance collective holding, classified as Other Asset Backed, has an outstanding amortized cost balance of \$24,591,903. Refer to Note 17 – Subsequent Events for additional information.

The Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corp. (Freddie Mac) were put into conservatorship on September 7, 2008.

A STIP reserve account was established in November 2007. Income is distributed to STIP participants based on accrued interest and discount amortization. To avoid distributing cash to participants based on accrued interest on certain SIVs that may be uncollectible; the accrued interest amount was deposited in this account. Additional accrued income was deposited in the account to pay for any incidental direct expenses incurred as a part of any SIV restructuring activity not to be paid from SIV assets. Accrued income was also deposited in the account to offset any potential principal loss on these securities in the future.

C. Equity in Pooled Investments

These securities consist of investments held by pooled investment funds. The Montana Domestic Equity Pool (MDEP), Trust Funds Investment Pool (TFIP), Retirement Funds Bond Pool (RFBP), Montana International Equity Pool (MTIP), Montana Private Equity Pool (MPEP), and Montana Real Estate Pool (MTRP) were created to allow qualifying funds to participate in diversified investment pools. Purchases are subject to the statutorily mandated “Prudent Expert Principle” (see Table 3 – Equity in Pooled Investments).

Table 3 – Equity in Pooled Investments
(in thousands)

	Carrying Amount	Fair Value
MDEP:		
Domestic equity pool	\$2,432,167	\$2,844,533
TFIP:		
Core real estate	90,632	99,825
Corporate bonds (rated)	658,099	697,997
Corporate bonds (unrated)	1,000	1,316
Municipal government bonds (rated)	1,090	1,094
U.S. government direct obligations	388,813	401,289
U.S. government agencies	521,679	540,525
High yield bonds	90,000	98,279
STIP	49,943	49,943
STIP Structured Investment Vehicle	863	863
RFBP:		
Corporate bonds (rated)	828,100	852,267
Corporate bonds (unrated)	1,029	1,042
International Government	24,333	25,725
U.S. government direct obligations	422,266	427,370
U.S. government agencies	581,485	592,777
Montana mortgages	26,484	26,102
Municipal bonds	1,516	1,573
State Street STIP	91,696	91,696
STIP	5,763	5,763
STIP Structured Investment Vehicle	100	100
MTIP:		
International stock pool	1,212,866	1,441,328
MPEP:		
Private equity pool	875,119	960,834
MTRP:		
Real estate pool	600,956	504,950
STIP	3,311	3,311
STIP Structured Investment Vehicle	57	57
Total pooled investments	8,909,367	9,670,559
Pool adjustments (net)	(94,962)	(94,962)
Total equity in pooled investments	\$8,814,405	\$9,575,597

As of June 30, 2011, the fair value of the underlying securities on loan was \$1,175,709,542. Collateral provided for the securities on loan totaled \$1,201,541,089, consisting of \$498,340,931 in cash and \$703,200,518 in securities.

As of June 30, 2011, component units of the State of Montana had equity in pooled investments with a book value of \$5,248,714,553 and a fair value of \$7,714,337,016, as included in Table 3.

Investment Risk Disclosures

The investment risk disclosures are described in the following paragraphs and are identified by the specific pools to which they pertain, when applicable.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. With the exception of the U.S. government securities, the pools' fixed income instruments have credit risk as measured by major credit rating services. This is the risk that the issuer of a fixed income security may default with regard to the timely payment of interest and principal. The Board of Investments' (BOI) policy requires TFIP fixed income investments "be rated investment grade, or no lower than triple-B minus by one nationally recognized securities rating organization (NRSRO) at time of purchase" and RFBP fixed income investments, at the time of purchase, to be rated "at least by Moody's (Baa3 or better) or by Standard & Poor's (S&P) (BBB- or better) rating services." Credit risk for the internal and external managers for the RFBP is detailed as follows:

1. Core Internal Bond Pool (CIBP) – "Securities must be rated investment grade, or no lower than triple-B-minus, by one nationally recognized securities rating organization at the time of purchase. Split rated securities may not exceed 3% of portfolio market value."
2. Reams Asset Management Company LLC – "At time of purchase, securities must be rated at least single-B by one major credit rating agency. At least 80% of portfolio holdings shall be rated investment grade by one major credit rating agency at time of purchase."
3. Artio Global Management LLC – "At time of purchase, securities must be rated at least double-B by one major credit rating agency. At least 80% of portfolio holdings shall be rated investment grade by one major credit rating agency at time of purchase."
4. Neuberger Berman Fixed Income LLC – "At time of purchase, securities must be rated at least triple-C by one major credit rating agency. Securities rated below single-B will be limited to 25% of portfolio value."
5. Post Advisory Group LLC – "At time of purchase, securities must be rated at least triple-C by one major credit rating agency. Securities rated below single-B will be limited to 25% of portfolio value."

The US Government securities are guaranteed directly or indirectly by the US Government. Obligations of the US Government or obligations explicitly guaranteed by the US Government are not considered to have credit risk and do not require disclosure of credit quality. The credit ratings presented in the tables below are provided by the S&P rating service. If an S&P rating is not available, a Moody's rating has been used.

Neither the MTIP, MDEP nor MTRP investment policies address credit risk for the MTIP and MDEP external managers' cash equivalents investment in STIF of \$4,315,617 and \$22,859,444, respectively or the MTRP STIP investment of \$3,367,711. One MDEP manager has a \$226,494 cash equivalent investment in the T. Rowe Price Reserve Investment Fund with an average credit rating of AAA.

The Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac) were put into conservatorship on September 7, 2008.

On September 14, 2008, Lehman Brothers filed for Chapter 11 bankruptcy. The Bond Pool, Investment Pool and AOF portfolios held a \$15 million position in Lehman Brothers Holdings, Inc., variable rate security with a May 25, 2010 maturity. In May 2009, BOI sold a \$5 million position in Lehman Brothers Holdings, Inc., variable rate security, held by the RFBP internal bond pool. This holding, written down to \$1 million, was sold at a loss of \$312,500. As of June 30, 2011, the book value of these bonds represents 20% of par. Refer to Note 17 – Subsequent Events for additional information.

Custodial Credit Risk

Deposits

Custodial risk for deposits is the risk that, in the event of the failure of a depository financial institution, the deposits or collateral securities may not be recovered from an outside party. As of fiscal year end, BOI recorded cash deposits of \$13,561,670. Of this balance, \$3,580,118 represented foreign cash deposits, at fair value, held in sub-custodial banks. These deposits are uninsured and the balances are exposed on the basis of no collateralization.

In November 2008, the Federal Deposit Insurance Corporation (FDIC)'s Board of Directors established a program called the 'Temporary Liquidity Guarantee Program' (TLGP). This program was designed to assist in the stabilization of the nation's

financial system. Under the Transaction Account Guarantee (TAG) program, a component of the TLGP, the FDIC guarantees all funds held in qualifying noninterest bearing transaction accounts at participating insured depository institutions. Effective June 22, 2010, an amendment to the 12 CFR 370, in part, extended the TAG program until December 31, 2010, with the possibility of an additional extension of up to 12 months upon the determination by the FDIC's Board of Directors. Pursuant to the Dodd-Frank Provision, all funds in noninterest bearing accounts are insured in full by the FDIC from December 31, 2010 through December 31, 2012. Excluding the foreign cash deposits, the remaining custodial bank cash deposits are fully insured by the FDIC. The MTRP interest bearing checking account for the direct real estate investments is insured by the FDIC up to \$250,000. BOI does not have a policy addressing deposit custodial risk.

Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, BOI may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2011, all the public securities as well as securities held by the separate public equity account managers were registered in the nominee name for the Montana Board of Investments and held in the possession of BOI's custodial bank, State Street Bank. The Equity Index funds, US Bank repurchase agreement, real estate, mortgage and loan investments were purchased and recorded in BOI's name. Commingled fund investments are registered in the name of the Montana Board of Investments. BOI does not have a policy addressing custodial risk for investments.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in any single issuer. Investments issued or explicitly guaranteed by the US government are excluded from the concentration of credit risk requirement. In October 2008, the US government extended the explicit guarantee to certain government agencies such as Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (FHLMC-Freddie Mac). Given the explicit guarantee extension, BOI had no concentration of credit risk exposure to Fannie Mae and Freddie Mac in either the Bond Pools or STIP.

Both the RFBP Core Internal Bond Pool and TFIP Investment Policy Statements (IPS) provide for a 2% portfolio limit for dollar denominated debt obligations of domestic and foreign corporations (Yankee bonds) and a 3% portfolio limit in non-agency Mortgage Pass-through (MBS) securities. Also per policy, "the RFBP will not make additional purchases in a credit if the credit risk exceeds 2 percent of the portfolio at the time of purchase except U.S. Government/Agency securities." The four RFBP external managers are limited to debt obligations of domestic and foreign corporations up to 3% of portfolio assets per issuer.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Bond Pools' duration is to remain within 20% of the established Index duration. In accordance with GASB Statement No. 40, BOI uses effective duration as a measure of interest rate risk for the Bond Pool portfolios. BOI's analytic software uses "an option-adjusted measure of a bond's (or portfolio's) sensitivity to changes in interest rates. Duration is defined as the average percentage change in a bond's price for a given change in interest rates. Prices move inversely to interest rates. The effective duration method incorporates the effect of embedded options for bonds and changes in prepayments for mortgage-backed securities (including pass-through securities, CMO, and ARM securities)."

The MDEP and MTIP investment portfolios include the external managers' cash equivalents invested in the custodial bank's Short Term Investment Fund (STIF) of \$22,859,444 and \$4,315,617, respectively. The STIF fund has an effective duration of .09. One MDEP investment manager invested \$226,494 in the T. Rowe Price Reserve Investment Fund with duration of .24. The MDEP and MTIP investment policy statements do not address interest rate risk for cash equivalent (debt pool) investments.

Asset-backed securities held in the Bond Pools are based on the cash flows from principal and interest payments emanating from a Trust containing a pool of underlying auto loan, credit card or other receivables. These securities, while sensitive to prepayments due to interest rate changes, generally have less credit risk than unsecured bonds. Their credit risk is based on the structure itself rather than balance sheet risk. This includes such factors as default rates, overcollateralization and quality of collateral.

The Bond Pools pay a fixed rate of interest until maturity while floating rate securities pay a variable rate of interest until maturity. As of June 30, 2011, the bond portfolios held certain variable rate issues. Interest payments on these securities are based on an underlying proxy, e.g., LIBOR.

Credit risk reflects the bond quality rating, by investment type, as of the June 30 report date. Interest rate risk is disclosed using effective duration. If a bond investment type is unrated, the quality type is indicated by NR (not rated). The credit quality ratings have been calculated excluding non-rated cash equivalents. If duration has not been calculated, duration is indicated by NA (not applicable).

Legal Risk

As of June 30, 2011, BOI was not aware of any legal risks regarding investments.

State of Montana investments are categorized below to disclose credit and interest rate risk as of June 30, 2011, as required for applicable pools. Credit risk reflects the bond quality rating, by investment type, as of June 30, 2011. Interest rate risk is disclosed using effective duration. If a bond investment type is unrated, the quality type is indicated by NR (not rated). The credit quality ratings have been calculated excluding non-rated investment types. If duration has not been calculated, duration is indicated by NA (not applicable).

TFIP
Credit Quality Rating and Effective Duration as of June 30, 2011
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating	Effective Duration
Core Real Estate	\$ 99,825	NR	NA
Corporate Bonds (rated)	697,997	A	5.06
Corporate Bonds (unrated)	1,316	NR	(3.40)
High Yield Bond Fund	98,279	B	3.91
Municipal Government Bonds (rated)	1,094	AA	.44
U.S. Government Direct Obligations	401,289	AAA	5.66
U.S. Government Agency	540,525	AAA	4.31
STIP	50,806	NR	.10
Total fixed-income investments	<u>\$1,891,131</u>	<u>AA-</u>	<u>4.76</u>
Securities Lending Collateral Investment Pool	<u>\$ 112,038</u>	NR	*

*As of June 30, 2011, the Securities Lending Quality Trust liquidity pool had an average duration of .09 and an average weighted final maturity of .29 for US dollar collateral. The duration pool had an average duration of .09 and an average weighted final maturity of 2.61 for US dollar collateral.

RFBP
Credit Quality Rating and Effective Duration as of June 30, 2011
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating	Effective Duration
Corporate Bonds (rated)	\$ 852,267	A-	4.63
Corporate Bonds (unrated)	1,042	NR	2.03
International Government	25,725	A+	4.88
Municipal Government Bonds	1,573	AA+	10.80
U.S. Government Direct Obligations	427,370	AAA	5.71
U.S. Government Agency	592,777	AAA	4.55
Montana Mortgages	26,102	NR	NA
State Street Short Term Investment Fund (STIF)	91,696	NR	.09
STIP	5,862	NR	.10
Total fixed-income investments	<u>\$2,024,414</u>	AA-	4.56
Securities lending collateral investment pool	<u>\$ 183,435</u>	NR	*

*As of June 30, 2011, the Securities Lending Quality D Short Term Investment Fund liquidity pool had an average duration of .09 and an average weighted final maturity of .17 for US dollar collateral. The duration pool had an average duration of .10 and an average weighted final maturity of 1.34 for US dollar collateral.

Effective June 30, 2010, the BOI implemented the provisions of GASB Statement No. 53 – Accounting and Financial Reporting for Derivative Instruments. The derivative instrument disclosures are described in the following paragraphs. The fair value balances and notional amounts of derivative instruments outstanding as of June 30, 2011, classified by type, and the changes in the fair value of such derivative instruments for the year ended June 30, 2011, as reported in the 2011 financial statements, are as follows (in thousands):

<u>Investment Derivatives</u>	<u>Change in Fair Value</u>		<u>Fair Value at June 30, 2011</u>		<u>Notional</u>
	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	
Currency forward contracts	Investment Revenue	\$ (2,290)	LT debt/equity	\$ (382)	38,567
Index futures long	Investment Revenue	1,623	Futures	-	5
Index futures short	Investment Revenue	6			
Rights	Investment Revenue	455	Equity	-	-
Warrants	Investment Revenue	22	Equity	-	-
Total derivatives		<u>\$ (184)</u>		<u>\$ (382)</u>	

A foreign currency forward is a contract to purchase one currency and sell another at an agreed upon exchange rate. Fair value represents the unrealized appreciation/depreciation on foreign currency forward transactions pending as of June 30, 2011, and is the difference between the execution exchange rate at and the prevailing exchange rate as of the report date. An index futures long is an agreement to buy, on a stipulated future date, a specific amount of an indexed financial instrument. Rights represent a privilege granted to existing shareholders to subscribe to shares of a certain security at a specified price. Warrants are a security type, usually issued together with a bond or preferred stock, entitling the owner to purchase additional securities from the issuer.

Credit Risk - Credit risk is the risk that the counter-party will not fulfill its obligations. The tables below depict the BOI's credit risk exposure to its investment derivatives and applicable counterparty credit ratings.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. Although the MTIP, RFBP and MTRP do not have a formal policy to limit foreign currency risk, the MTIP policy provides for the “external managers to hedge currency in a defensive manner. The managers are not allowed to engage in currency speculation, such as over-hedging, reverse hedging, cross-hedging or other trading activity not specifically aimed at minimizing risk versus their benchmark or preserving the U.S. dollar value of investments. The managers’ Investment Guidelines provide for currency hedging and emerging market limitations. At the Pool level, MTIP will be managed on an un-hedged basis. The MPEP policy does not address foreign currency risk, but identifies “country risk as including all of the risks associated with international alternative investments along with the political, economic and currency risks associated with investing outside of the United States.” As of the June 30, 2011 exchange date, BOIs’ foreign currency exposure by forward contracts, deposits and investment type are reported, in US dollars, at fair value in the tables below excluding the foreign investments denominated in US dollars for the American Depositary Receipts (ADRs) and commingled index funds.

Foreign Currency Exposure by Country

Foreign Currency Denomination	Currency	Fixed Income	Equities	Private Equity	Real Estate
Australian Dollar	\$ 57	\$ 4,703	\$ 31,244	\$ -	\$ -
Brazilian Real	2	5,642	12,631	-	-
Canadian Dollar	421	3,794	30,051	-	-
Danish Krone	30	-	8,437	-	-
Euro	693	1,519	156,232	18,745	16,802
Hong Kong Dollar	438	-	44,539	-	-
Hungarian Forint	1	-	987	-	-
Indonesian Rupiah	1	-	790	-	-
Israeli Shekel	-	-	113	-	-
Japanese Yen	620	-	94,915	-	-
Malaysian Ringgit	211	-	3,639	-	-
Mexican Peso	227	5,528	983	-	-
New Zealand Dollar	-	1,100	-	-	-
Norwegian Krone	87	-	5,475	-	-
Philippine Peso	14	-	358	-	-
Polish Zloty	-	2,625	1,447	-	-
Singapore Dollar	78	-	8,586	-	-
South African Rand	-	-	4,477	-	-
South Korean Won	-	-	9,727	-	-
Swedish Krona	78	-	11,082	-	-
Swiss Franc	112	-	32,165	-	-
New Taiwan Dollar	9	-	7,472	-	-
Thailand Baht	-	-	3,003	-	-
Turkish Lira	-	-	764	-	-
UK Pound Sterling	503	815	101,513	-	-
Total Cash and Securities	\$3,582	\$25,726	\$ 570,630	\$18,745	\$16,802

Maximum Loss before and after Netting and Collateral (in thousands)

Maximum amount of loss BOI would face in case of default of all counterparties i.e. aggregated (positive) fair value of OTC (Over-the-Counter) positions as of June 30, 2011.	\$ 53
Effect of collateral reducing maximum exposure	-
Liabilities subject to netting arrangements	-
Resulting net exposure	\$ 53

Counterparty Credit Rating

<u>Counterparty Name</u>	<u>Percentage of Net Exposure</u>	<u>S&P Rating</u>	<u>Fitch Rating</u>	<u>Moody's Rating</u>
State Street Bank	43%	AA-	A+	Aa2
Deutsche Bank London	29%	A+	AA-	Aa3
Credit Suisse London	19%	A+	AA-	Aa1
Westpac Banking Corp	9%	AA	AA	Aa2
JP Morgan Chase Bank	0%	NA	NA	NA

D. Investments

Article VIII of Montana's Constitution, with supporting statutes, authorizes the Board of Investments (BOI) to manage the State's unified investment program. Long-term investments are administered by the following agencies, as allowed by state law, Title 17, Chapter 6, Part 201, MCA:

Long-term Investments

<u>Department</u>	<u>Percent Administered</u>
Board of Investments	67.21%
PERA (Public Employee Retirement Administration)	19.98
Board of Housing	6.08
College Savings Plan	4.39
Montana State University/University of Montana	1.15
Other (1)	1.19
Total	<u>100.00%</u>

- (1) Other consists of the Commissioner of Higher Education, the Department of Administration, the Department of Natural Resources and Conservation, the Department of Public Health and Human Services, and the Department of Revenue.

The BOI must employ the "Prudent Expert Rule" in managing the State's investment portfolio. Investments are presented at fair value. Investment fair values for publicly traded securities are determined primarily by reference to market prices supplied to the BOI's custodial bank or trustee. Amortized cost, or carrying value, represents the original cost, adjusted for premium and discount amortization where applicable.

The PERS Defined Contribution Retirement Plan and the deferred compensation plan's fixed assets were invested and managed on behalf of the plans by Pacific Investment Management Company (PIMCO) and State Street Bank Kansas City (SSKC) and a third-party insurer, Aegon. The third party record keeper, Great-West Retirement Services, tracks and reports the daily trading and valuations of all investment options, including the assets held by the individual mutual fund companies.

When participants invest in the fixed investment, they are guaranteed a rate of return. The PERS-DCRP fixed money is invested in a PIMCO mutual fund. The minimum average portfolio quality must be an A rating; the minimum issue quality must be a BB-rating; and the minimum commercial paper quality must be A2/P2. Variable investments are held and managed by a selection of retail and institutional mutual funds, which cover all standard asset classes and categories. VEBA (Voluntary Employee Benefit Association) investments are made in mutual fund equities and mutual fund fixed-income funds. The Montana 529 College Savings Plan is invested in Vanguard Group mutual funds and College Savings Bank fixed-income products.

Table 4 – Investments
(in thousands)

	Carrying Amount	Fair Value
Primary government		
Corporate bonds (rated) (1)	\$ 37,624	\$ 38,292
U.S. govt agency (1)	87,797	92,528
U.S. govt direct (rated) (1)	26,512	27,389
Government securities	19,170	19,249
STIP/SIV investments	11,294	11,294
Loans	170,033	170,033
Other equities	7,190	6,872
Total	\$ 359,620	\$ 365,657
Component units/fiduciary funds		
Corporate bonds (rated) (1)	\$ 610,768	\$ 645,194
U.S. govt agency (1)	249,036	269,051
U.S. govt direct (rated) (1)	158,060	167,895
STIP/SIV Investments	12,279	12,279
Other equities	99,008	137,532
Deferred compensation	360,009	360,009
Defined contribution	75,298	75,298
529 College Savings Plan	95,755	95,755
VEBA	1,850	1,982
Investments of MSU component units	152,299	152,299
Investments of UM component units	172,207	172,207
Other	157,642	164,510
Total	\$ 2,144,211	\$ 2,254,011
Total investments	\$ 2,503,831	\$ 2,619,668
Securities lending collateral investment pool	\$ 118,987	\$ 118,987

(1) The credit quality rating and duration are included below for the rated investments.

As of June 30, 2011, the fair value of the investments on loan was \$392,987,686. Collateral provided for the investments on loan totaled \$401,598,422 consisting of \$118,987,041 in cash and \$282,611,381 in securities.

All Other Funds - Rated Securities
Credit Quality Rating and Effective Duration as of June 30, 2011
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating	Effective Duration
Corporate Bonds (Rated) (1)	\$ 681,062	A	3.37
Corporate Bonds (Unrated) (1)	1,316	NR	(3.40)
U.S. Government Direct Obligations (1)	254,093	AAA	4.07
U.S. Government Agency(1)	334,891	AAA	2.89
US Bank Sweep Repurchase Agreement (1)(2)	15,078	NR	-
Total	\$1,286,440	AA-	3.34

- (1) These rated securities are reported on both Table 2 – Cash Equivalents and Table 4 – Investments.
- (2) The US Bank repurchase agreement, per contract, was collateralized at 102% for \$15,379,417 by one Federal Home Loan Mortgage Corporation Gold security maturing December 1, 2029. This security carries AAA credit quality rating.

Investment Risk Disclosures

The investment risk disclosures are described in the following paragraphs and are identified by the specific securities to which they pertain, when applicable.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Of the 19 individual Investment Policy Statements for the funds categorized as the AOF, eight funds have specific policies associated with credit risk. The remaining funds have no policy addressing credit risk. Two funds require “corporate securities be rated A3/A- or higher by Moody’s/S&P rating agencies to qualify for purchase.” One fund requires fixed income investments, at the time of purchase, to be rated investment grade as defined either by Moody’s or by Standard & Poor’s (S&P) rating services. The investment policy, revised in May 2010, states “the maximum fixed income credit risk will be limited to 2% of the total securities portfolio in any one name”. Five funds require, at the time of purchase, “the quality rate of any corporate bond shall be in the top of the single-A rating classification or better at the time of purchase (eg. A1/A+ or higher) and have at least two ratings. Exposure to the securities of any one U.S. Agency is limited to 5% and in no event will an agency security be purchased if it carries a rating that is less than top-rated (AAA) at the time of purchase.”

On September 14, 2008, Lehman Brothers filed for Chapter 11 bankruptcy. The Bond Pool, Investment Pool and AOF portfolios held a \$15 million position in Lehman Brothers Holdings, Inc., variable rate security with a May 25, 2010 maturity. The AOF portfolio also includes a \$5 million position in Lehman Brothers Holdings, Inc., 5% rate, and January 14, 2011 maturity. As of September 30, 2008, the book value of these bond positions was written down to 80% of par. On October 30, 2008, the book value of these bonds was further written down to 65% of par. Four additional write downs occurred during fiscal year 2009. As of June 30, 2011, the book value of these bonds represents 20% of par. Refer to Note 17 – Subsequent Events for additional information.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the deposits or collateral securities may not be recovered from an outside party. Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, BOI may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2011, all the public securities as well as securities held by the separate public equity account managers were registered in the nominee name for the Montana Board of Investments and held in the possession of BOI’s custodial bank, State Street Bank. The Equity Index funds, US Bank repurchase agreement, real estate, mortgage and loan investments were purchased and recorded in BOI’s name. Commingled fund investments are registered in the name of the Montana Board of Investments. BOI does not have a policy addressing custodial risk for investments.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in any single issuer. Investments issued or explicitly guaranteed by the US government are excluded from the concentration of credit risk requirement. In October 2008, the US government extended the explicit guarantee to certain government agencies such as Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (FHLMC-Freddie Mac). Given the explicit guarantee extension, BOI had no concentration of credit risk exposure to Fannie Mae and Freddie Mac in either the Bond Pools or STIP.

With the exception of seven funds, the 19 investment policy statements for various AOF state agencies do not address concentration of credit risk. One fund provides for a concentration limitation pertaining to repurchase obligations. The policy for another fund states, "the fixed income holdings rated lower than 'A3 or A- are limited to 25 percent of the fixed income portfolio at the time of purchase. This same fund is limited to stock investments not to exceed 25 percent of the book value of its total invested assets. In addition, this fund's IPS provides for a 2% portfolio limit for dollar denominated debt obligations of domestic and foreign corporations (Yankee bonds) and a 3% portfolio limit in non-agency Mortgage Pass-through (MBS) securities." The policy for five funds sets "investment limits to reduce the risk of loss on individual corporate bonds, investment purchases in any one credit will be limited to 1% of the market value of the fund at the date of purchase or 2% of the lowest projected fund balance before the securities mature, whichever is lower. Limits are also set by corporate bond sector for these five funds." Investments by various governmental agencies, pooled as the All Other Funds, are excluded from the concentration of credit risk requirement.

This concentration of credit risk includes the rated securities from Table 2 – Cash Equivalents and Table 4 – Investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. With the exception of two funds, the AOFs' investment policies do not formally address interest rate risk. One fund limits securities three years to maturity and repurchase agreements seven days to maturity. Another fund's policy sets an average duration range of 2-5 years for fixed income securities except in extraordinary circumstances where a shorter duration may be advisable. In accordance with GASB Statement No. 40, BOI uses effective duration as a measure of interest rate risk for the AOF portfolio. BOI's analytic software uses "an option-adjusted measure of a bond's (or portfolio's) sensitivity to changes in interest rates. Duration is defined as the average percentage change in a bond's price for a given change in interest rates. Prices move inversely to interest rates. The effective duration method incorporates the effect of embedded options for bonds and changes in prepayments for mortgage-backed securities (including pass-through securities, CMO, and ARM securities)."

Asset-backed securities are based on the cash flows from principal and interest payments emanating from a Trust containing a pool of underlying auto loan, credit card or other receivables. These securities, while sensitive to prepayments due to interest rate changes, generally have less credit risk than unsecured bonds. Their credit risk is based on the structure itself rather than balance sheet risk. This includes such factors as default rates, overcollateralization and quality of collateral.

The AOF bonds pay a fixed rate of interest until maturity while floating rate securities pay a variable rate of interest until maturity. As of fiscal year end, these portfolios held certain variable rate issues. Interest payments on these securities are based on an underlying proxy, e.g., LIBOR (London Interbank Offered Rate).

As of fiscal year end, the AOF portfolio held one \$10 million par synthetic Collateralized Debt Obligations (CDO) variable rate position in Aria II, 0.00%, 10/10/2012. Although the current interest rate is zero, the variable rate is set to float with the six month LIBOR plus a variable spread on a notional amount percent. A CDO is a structured debt security backed by a portfolio consisting of bonds, loans, synthetic instruments or other structured finance securities issued by a variety of corporate or sovereign obligors. The CDO positions are categorized as rated corporate debt.

AOF investments are categorized to disclose credit and interest rate risk as of the fiscal year end. Credit risk reflects the bond quality rating, by investment type, as of the June 30 report date. Interest rate risk is disclosed using effective duration. If a bond investment type is unrated, the quality type is indicated by NR (not rated). The credit quality ratings have been calculated excluding non-rated cash equivalents. If duration has not been calculated, duration is indicated by NA (not applicable).

Legal Risk

As of June 30, 2011, there were no known legal risks regarding investments.

NOTE 4. DISAGGREGATION OF ACCOUNTS RECEIVABLE AND PAYABLE

A disaggregation of the net receivables and accounts payable (by fund type) as of June 30, 2011, follows (amounts in thousands):

A. Receivables

	Governmental Funds					
	General	State Special Revenue	Federal Special Revenue	Coal Severance Tax Permanent	Land Grant Permanent	Nonmajor Governmental
Licenses and permits	\$ -	\$ 4,653	\$ -	\$ -	\$ -	\$ -
Taxes	224,433	77,542	-	6,905	-	1,740
Charges for services/ fines/ forfeitures	31	10,595	4,534	-	53,152	-
Investment income	367	5,109	5	3,248	3,855	4,626
Contributions/ premiums	-	19,895	-	-	-	-
Reimbursements/ overpayments	6,747	5,744	-	-	-	-
Grants/ contracts/ donations	-	545	-	-	-	-
Other	3,164	122	10,180	-	-	750
Total						
Receivables	234,742	124,205	14,719	10,153	57,007	7,116
Less: Allowance for doubtful accounts	(16,525)	(10,747)	(723)	-	-	-
Receivables, net	\$ 218,217	\$ 113,458	\$ 13,996	\$ 10,153	\$ 57,007	\$ 7,116

	Proprietary Funds			
	Unemployment Insurance	Economic Development Bonds	Nonmajor Enterprise	Internal Service
Charges for services	\$ -	\$ -	\$ 24,259	\$ 196
Investment income	-	7,781	15	340
Contributions/ premiums	4,456	-	155	579
Reimbursements/ overpayments	11,050	-	-	-
Other	-	-	31	12
Total receivables	15,506	7,781	24,460	1,127
Less: allowance for doubtful accounts	(5,609)	-	(245)	(3)
Receivables, net	\$ 9,897	\$ 7,781	\$ 24,215	\$ 1,124

B. Payables

Governmental Funds					
	General	State Special Revenue	Federal Special Revenue	Land Grant Permanent	Nonmajor Governmental
Tax refunds	\$ 131,007	\$ -	\$ -	\$ -	\$ -
Vendors/Individuals	60,960	78,508	134,384	-	3,416
Payroll	11,887	11,072	4,389	-	8
Accrued Interest	-	-	-	3,767	-
Payables, net	<u>\$ 203,854</u>	<u>\$ 89,580</u>	<u>\$ 138,773</u>	<u>\$ 3,767</u>	<u>\$ 3,424</u>

Proprietary Funds				
	Unemployment Insurance	Economic Development Bonds	Nonmajor Enterprise	Internal Service
Vendors/Individuals	\$ 6,404	\$ 1	\$ 10,715	\$ 8,177
Payroll	-	7	479	1,833
Accrued Interest	-	164	-	-
Payables, net	<u>\$ 6,404</u>	<u>\$ 172</u>	<u>\$ 11,194</u>	<u>\$ 10,010</u>

NOTE 5. CAPITAL ASSETS**A. Primary Government**

Changes in capital asset balances for the fiscal year ended June 30, 2011, are reflected in the following table (in thousands):

Governmental Activities	Beginning Balance (2)	Increases (1)	Decreases (1)	Ending Balance
Capital assets not being depreciated:				
Land	\$ 519,300	\$ 65,675	\$ (2,846)	\$ 582,129
Construction Work In Progress	505,052	472,454	(471,157)	506,359
Easements	88,789	30,232	-	119,021
Museum & Art	64,361	153	(9)	64,505
Other	9,849	196	-	10,045
Total Capital Assets not being depreciated	1,187,351	568,710	(474,012)	1,282,049
Capital assets being depreciated:				
Infrastructure	3,915,111	532,228	(372,001)	4,075,338
Land Improvements	32,454	4,472	(72)	36,854
Buildings/Improvements	471,149	55,688	(4,729)	522,108
Equipment	326,926	22,935	(16,697)	333,164
Easements - Amortized	2,033	-	(73)	1,960
Other	4,437	200	-	4,637
Total Capital Assets being depreciated	4,752,110	615,523	(393,572)	4,974,061
Less Accumulated Depreciation for:				
Infrastructure	(1,350,620)	(204,966)	211,604	(1,343,982)
Land Improvements	(7,972)	(2,203)	139	(10,036)
Buildings/Improvements	(244,958)	(17,186)	2,511	(259,633)
Equipment	(208,618)	(25,974)	16,042	(218,550)
Other	(3,982)	(190)	-	(4,172)
Total accumulated depreciation	(1,816,150)	(250,519)	230,296	(1,836,373)
Total capital assets being depreciated net	2,935,960	365,004	(163,276)	3,137,688
Intangible Assets	25,895	23,135	(13,302)	35,728
Governmental activities capital assets net	\$ 4,149,206	\$ 956,849	\$ (650,590)	\$ 4,455,465

(1) The increases and decreases noted above include adjustments related to prior periods and corrections of errors.

(2) Beginning balance has been adjusted due to footing error in prior year.

Primary Government (continued)

	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Business-type activities				
Capital assets not being depreciated:				
Land	\$ 800	\$ -	\$ -	\$ 800
Construction Work In Progress	1,537	1,265	(99)	2,703
Other (2)	-	3,206	-	3,206
Total Capital Assets not being depreciated	2,337	4,471	(99)	6,709
Capital assets being depreciated:				
Infrastructure	915	36	-	951
Land Improvements	3,830	-	-	3,830
Buildings/Improvements	7,454	-	-	7,454
Equipment	7,297	1,093	(20)	8,370
Other (2)	3,145	-	(3,145)	-
Total Capital Assets being depreciated	22,641	1,129	(3,165)	20,605
Less Accumulated Depreciation for:				
Infrastructure	(594)	(17)	-	(611)
Land Improvements	(723)	(149)	-	(872)
Buildings/Improvements	(4,744)	(182)	-	(4,926)
Equipment	(4,459)	(590)	56	(4,993)
Other Fixed Assets	(15)	-	15	-
Total accumulated depreciation	(10,535)	(938)	71	(11,402)
Total capital assets being depreciated net	12,106	191	(3,094)	9,203
Intangible Assets	91	15	(55)	51
Business Type activities capital assets net	\$ 14,534	\$ 4,677	\$ (3,248)	\$ 15,963

(1) The increases and decreases noted above include adjustments related to prior periods and corrections of errors.

(2) Balance was moved from depreciable to not depreciable for Capital Livestock that is deemed not depreciable.

Depreciation expense was charged to governmental functions as follows (in thousands):

	Amount
General Government	\$ 11,299
Public Safety/Corrections	6,857
Transportation (including depreciation of the highway system maintained by the state)	219,820
Health/Social Services	1,868
Educational/Cultural	692
Resource Development/Recreation (including depreciation of the state's dams)	9,686
Depreciation and amortization on capital assets held by the States internal service funds is charged to the various functions based on their usage of the assets.	297
Total depreciation expense - governmental activities	<u>\$ 250,519</u>

Depreciation expense was charged to business-type activities as follows (in thousands):

	Amount
Liquor Stores	\$ 109
State Lottery	323
Other Enterprise Funds	223
Prison Funds	283
Total Depreciation Expense - Business-Type Activities	<u>\$ 938</u>

The depreciation expenses noted above include adjustments related to prior periods and correction of errors.

B. Discretely Presented Component Units

The following table summarizes net capital assets reported by the discretely presented component units (in thousands). All component units, other than higher education units, are included under the “Other” caption for this schedule:

	Montana State University	University of Montana	Other	Total
Capital assets not being depreciated:				
Land	\$ 6,933	\$ 7,817	\$ 1,139	\$ 15,889
Construction Work In Progress	12,095	30,463	500	43,058
Capitalized Collections	8,320	17,430	-	25,750
Livestock for educational purposes	3,112	-	-	3,112
Total Capital Assets not being depreciated	30,460	55,710	1,639	87,809
Capital assets being depreciated:				
Infrastructure	34,836	6,770	-	41,606
Land Improvements	17,427	12,884	-	30,311
Buildings/Improvements	470,745	480,141	27,941	978,827
Equipment	133,701	68,281	7,199	209,181
Livestock	-	17	-	17
Library Books	64,912	56,341	-	121,253
Total Capital Assets being depreciated	721,621	624,434	35,140	1,381,195
Total accumulated depreciation	(395,376)	(327,124)	(4,404)	(726,904)
Total Capital Assets being depreciated net	326,245	297,310	30,736	654,291
Intangible Assets	883	2,051	2,348	5,282
MSU Component Unit Capital Assets, net	11,846	-	-	11,846
UM Component Unit Capital Assets, net	-	4,120	-	4,120
Discretely Presented Component Units				
Capital Assets, net	\$ 369,434	\$ 359,191	\$ 34,723	\$ 763,348

NOTE 6. RETIREMENT PLANS

A. General

The Public Employees’ Retirement Board (PERB), a discretely presented component unit of the State of Montana, administers eight defined benefit plans: Public Employees’ Retirement System-Defined Benefit Retirement Plan (PERS-DBRP), Judges’ Retirement System (JRS), Highway Patrol Officers’ Retirement System (HPORS), Sheriffs’ Retirement System (SRS), Game Wardens’ and Peace Officers’ Retirement System (GWPORS), Municipal Police Officers’ Retirement System (MPORS), Firefighters’ Unified Retirement System (FURS), and Volunteer Firefighters Compensation Act (VFCA). The PERB also administers two defined contribution plans: The Public Employees’ Retirement System-Defined Contribution Retirement Plan (PERS-DCRP) and the Deferred Compensation Plan (457). The PERB prepares a publicly issued comprehensive annual financial report that includes financial statements and required supplementary information for PERS-DBRP, JRS, HPORS, SRS, GWPORS, MPORS, FURS, VFCA, as well as the two defined contribution plans, PERS-DCRP and Deferred Compensation plan. Separately issued financial statements can be obtained at 100 North Park, Suite 200, PO Box 200131, Helena, MT 59620-0131.

The financial statements for PERS-DBRP include activity for the defined benefit and the associated education fund. The PERS-DCRP financial statements include activity for the defined contribution and the associated education and disability funds.

The Teachers Retirement System (TRS) is a discretely presented component unit of the State of Montana and administered by the Teachers Retirement Board. The plan prepares a publicly issued comprehensive annual financial report that includes financial statements and required supplementary information for TRS. Separately issued financial statements can be obtained at 1500 Sixth Avenue, P O Box 200139, Helena, MT 59620-0319.

B. Plan Descriptions

The State contributes to and/or administers ten plans in two categories: (1) the State as the single employer; and (2) the State as an employer contributor to cost-sharing, multiple-employer plans.

The number of years required to obtain vested rights varies among the plans. All plans provide early retirement options, death benefits, termination, and disability benefits. The post-retirement benefits of each of the plans are included in the tables that follow.

The funding policies for each plan provide for periodic employer and employee contributions (except VFCA) at rates specified by state law. An actuary determines the actuarial implications of the funding requirement in an annual actuarial valuation. The actuarial method used to determine the implications of the statutory funding level is the Entry Age Actuarial Cost Method, with both normal cost and amortization of the unfunded actuarial liability determined as a level percentage of payrolls. To maintain a fund on an actuarially sound basis, the rate of contributions should fund the normal cost, in addition to amortizing the unfunded liability over a period not to exceed 30 years.

C. Public Employee Defined Benefit Retirement Plans.

(1) State as the Single Employer

A summary of government employees participating in JRS and HPORS by employer type at June 30, 2011, follows:

Employers	JRS	HPORS
State agencies	1	1
Total	1	1

JRS – Judges’ Retirement System – JRS is a single-employer defined benefit pension plan established in 1967 and governed by Title 19, chapters 2 & 5 of the Montana Code Annotated (MCA). This system provides retirement benefits for all Montana judges of district courts, justices of the Supreme Court, and the Chief Water Judge.

HPORS – Highway Patrol Officers’ Retirement System – HPORS is a single-employer, defined benefit pension plan, established July 1, 1971 and governed by Title 19, chapters 2 & 6 of the MCA. This system provides retirement benefits for all members of the Montana Highway Patrol, including supervisory personnel. Eligible members, retired prior to July 1, 1991, or their survivors may be eligible for an annual supplemental lump-sum payment distributed each September. Many factors must be considered for eligibility, including the number of years the recipient has received a service retirement or disability benefit, the recipient’s age, and whether the recipient is employed in a position covered by a retirement system under Title 19. This lump-sum payment is funded by a portion of the fees collected from drivers’ license and duplicate drivers’ license application fees requested by the PERB from the general fund. The average annual supplemental payment for non-GABA retirees was \$2,678 in September 2010. This enhancement is limited to non-GABA (Guaranteed Annual Benefit Adjustment) retirees.

For the funded status, and funding progress of the JRS and HPORS, plans refer to the Required Supplementary Information.

(2) State as an Employer Contributor to Cost-Sharing, Multiple-Employer Plans

A summary of government employers participating in PERS-DBRP, SRS, GWPORS, MPORS, FURS,, and TRS by employer type at June 30, 2011, follows:

Employers	PERS-DBRP	SRS	GWPORS	MPORS	FURS	TRS
State agencies	34	1	4		1	9
Counties	55	56				
Cities/towns	97			31	16	
Rural Fire Districts					7	
Colleges/universities	5		3			5
Highs School	6					
School districts	231					351
Other Agencies	105					
Total	533	57	7	31	24	365

PERS-DBRP – Public Employees Retirement System - Defined Benefit Retirement Plan – PERS-DBRP is a defined benefit cost sharing, multiple-employer public retirement system established on July 1, 1945 and governed by Title 19, chapters 2 & 3 of the MCA. This plan provides retirement, disability and death benefits to substantially all public employees and their beneficiaries not covered by another public plan.

Actuarial Status: The Montana Constitution, Article VIII, Section 15, requires public retirement plans be funded on an actuarially sound basis. The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. As of June 30, 2011, the statutory contribution rates are not sufficient to amortize the unfunded actuarial accrued liability in 30 years or less.

SRS – Sheriffs Retirement System – This is a defined benefit cost-sharing, multiple-employer retirement system established on July 1, 1974 and governed by Title 19, chapters 2 & 7 of the MCA. The plan provides retirement benefits to all State Department of Justice criminal and gambling investigators hired after July 1, 1993, all detention officers hired after July 1, 2005, and all Montana sheriffs.

Actuarial Status: The Montana Constitution, Article VIII, Section 15, requires public retirement plans be funded on an actuarially sound basis. The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. As of June 30, 2011, the statutory contribution rates are not sufficient to amortize the unfunded actuarial accrued liability in 30 years or less.

GWPORS – Game Wardens & Peace Officers Retirement System – This is a defined benefit cost-sharing, multiple-employer retirement system established in 1963 and governed by Title 19, Chapters 2 & 8 of the MCA. The plan provides retirement benefits for all persons employed as game wardens, warden supervisory personnel, or state peace officers.

Actuarial Status: The Montana Constitution, Article VIII, Section 15, requires public retirement plans be funded on an actuarially sound basis. The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate, plus an amortization payment of the unfunded actuarial liability, if any over no more than 30 years. As of June 30, 2011, the statutory contribution rates are not sufficient to amortize the unfunded actuarial accrued liability in 30 years or less.

MPORS – Municipal Police Officers Retirement System – MPORS is a defined benefit cost-sharing, multiple-employer retirement system established in 1974 and governed by Title 19, chapters 2 & 9 of the MCA. This plan covers all municipal police officers of first- and second-class cities and other cities that adopt the plan. It is a cost-sharing defined benefit plan with a special funding situation.

As of July 1, 2002, eligible members of MPORS have the opportunity to participate in the Deferred Retirement Option Plan (DROP) by filing a one-time irrevocable election with the PERB. The DROP is governed by Title 19, chapter 9, part 12, MCA. An eligible member must have completed at least 20 years of membership service. They may elect to participate in the DROP for a minimum of one month and a maximum of 60 months and may participate in the DROP only once. A participant remains a member of the MPORS, but will not receive membership service or service credit in the system for the duration of the member's DROP period. During the participation in the DROP, all mandatory contributions continue to be made to the retirement plan. A monthly benefit is calculated based on salary and years of service to the date as of the beginning of the DROP period. The monthly benefit is paid into the member's DROP account until the end of the DROP period. At the end of the DROP period, the participant may receive the balance of the DROP account in a lump-sum payment or in a direct rollover

to another eligible plan, as allowed by the IRS. If the participant continues employment after the DROP period ends, they will again accrue membership service and service credit. The DROP account cannot be distributed until employment is formally terminated.

FURS – Firefighters Unified Retirement System – This is a defined benefit cost-sharing, multiple-employer retirement system established in 1981 and governed by Title 19, chapters 2 & 13 of the MCA. The plan provides retirement benefits for firefighters employed by first- and second-class cities, other cities and rural fire district departments that adopt the plan, and to firefighters hired by the Montana Air National Guard (MANG) on or after October 1, 2001.

VFCA – Volunteer Firefighters Compensation Act – This compensation plan, established in 1965 and governed by Title 19, chapter 17 of the MCA, provides pension, disability and survivorship benefits for all volunteer firefighters who are members of qualified volunteer fire companies in unincorporated areas; towns, villages and includes volunteer fire departments, fire districts, and fire service areas under the laws of the state. VFCA also provides limited benefits for death or injuries incurred in the line of duty. VFCA is a plan with a special funding situation.

TRS – Teachers Retirement System – This mandatory plan, established in 1937 and governed by Title 19, chapter 20 of the MCA, provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, special education cooperative, state agency, community college, or unit of the university system.

Actuarial Status: The Montana Constitution, Article VIII, Section 15, requires public retirement plans be funded on actuarially sound basis. The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. Based on the current actuarial value of assets and all future experience emerging as assumed, the unfunded actuarial liability will amortize over 71 years. The plan's actuary has determined that as of July 1, 2011, the current employer contribution rate of 9.85% plus the General Fund contribution of 2.49% of members' salaries are not sufficient to meet the actuarial cost. The unfunded actuarial accrued liability of \$1.792.1 billion is included in the retirement plan's schedule of funding progress

D. Public Employee Defined Contribution Retirement Plans

A summary of government employers participating in the PERS-DCRP and Deferred Compensation plans by employer type at June 30, 2011 follows:

Employers	PERS-DCRP	457
State agencies	31	1
Counties	45	2
Cities/towns	48	4
Colleges/universities	4	5
High Schools	2	-
School districts	92	4
Other Agencies	39	7
Total	261	23

PERS-DCRP – Public Employees Retirement System - Defined Contribution Retirement Plan – This plan is a multiple-employer plan established July 1, 2002 and governed by Title 19, chapter 2 & 3 of the MCA.

All new hires initially are members of the Public Employees Retirement System - Defined Benefit Retirement Plan (PERS-DBRP). New hires have a 12-month window during which they may choose to transfer to the PERS-DCRP or remain in the current PERS-DBRP. Members may not be members of both the defined contribution and defined benefit retirement plans. The choice is irrevocable. Members of the defined contribution retirement plan direct their contributions and a portion of their employer's contributions among the offered investment options. The remaining portion of their employer's contributions is to be used to reduce the Plan Choice Rate unfunded actuarial liability, to fund the long-term disability benefits to participants of the DCRP, and to fund an employee education program. The employer and employee plan contributions as of June 30, 2011, were \$3.9 million and \$6.1 million, respectively.

457 – Deferred Compensation Plan – The Deferred Compensation (457) plan was established in 1976 and is governed by Title 19, chapter 50, MCA, in accordance with Internal Revenue Service Code section 457. All employees of the State, the Montana University System, and contracting political subdivisions are eligible to participate.

The Deferred Compensation plan is a voluntary, supplemental retirement savings plan. Assets of the 457 Deferred Compensation plan are required to be held in trusts, custodial accounts, or insurance company contracts for the exclusive benefit of participants and their beneficiaries. Participants elect to defer a portion of their salary, within IRC limits. The deferred salary is not available to employees until separation from service, retirement, death, or upon an unforeseeable emergency while still employed provided IRC-specified criteria are met. Participant rights are fully vested in their accounts at the time of deposit. The employer and employee plan contributions as of June 30, 2011, were \$63 thousand and \$19.1 million, respectively.

E. Optional Retirement Program

ORP – Optional Retirement Program – Effective January 1, 1988 through June 30, 1993, eligible employees of the Montana University System (MUS) could elect to participate in the Optional Retirement Program (ORP). The ORP is a defined contribution retirement plan governed by Title 19, chapter 21 of the Montana Code Annotated. The plan is underwritten by the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF); only faculty and staff with contracts under the authority of the Board of Regents may participate. Those faculty and staff members, who did not elect the ORP participate in the Teachers' Retirement System or the Public Employees' Retirement System benefit plans. Beginning July 1, 1993, membership in the ORP was mandatory for eligible employees new to the MUS. The MUS is the only employer contributing to this plan.

The benefits at retirement depend upon the amount of contributions, amount of investment gains and losses, and the employee life expectancy at retirement. Under the ORP, each employee enters into an individual contract with TIAA-CREF. Individuals are immediately vested with all contributions. Higher education units record employee/employer contribution expenditures in the affected higher education sub-fund when remitting contributions to the Commissioner of Higher Education. These monies are recorded in the Custodial Accounts Agency Fund. The Commissioner's Office then wire-transfers the contributions to TIAA-CREF. The MUS is not liable for asset management or for providing benefits after the required contributions have been made to TIAA-CREF.

Required employee contributions were 7.03% of salary; required employer contributions were 5.83% of salary, for a total of 12.86% of salary contributed to the ORP (refer to the following table).

	TIAA-CREF (in thousands)
Covered payroll	\$200,855
Total payroll	370,175
Employer contributions	\$ 11,716
Percent of covered payroll	5.83%
Employee contributions	\$ 14,116
Percent of covered payroll	7.03%

F. Summary of Significant Accounting Policies

The pension trust funds' financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and when the employer has made a formal commitment to provide the contributions. Benefits and refund distributions are recognized when due and payable in accordance with the terms of each plan.

G. Method Used to Value Investments

The Montana Board of Investments (BOI) manages the investments for the defined benefit retirement plans. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on a discounted cash flow. Investments that do not have an established market

are reported at estimated fair value. These values are based on market prices supplied to the BOI by its custodial bank, State Street Bank, and various brokerage services.

For details on investments, see Note 3, section D.

H. Long-term Contracts for Contributions

The Montana Legislature enacted a provision of the Employee Protection Act (EPA) (Title 19, Chapter 2, Part 706, MCA), related to the Employee Protection Act, allowing state and university system employees who are eligible for a service retirement and whose positions have been eliminated to have their employer pay a portion of the total cost of purchasing up to three years of "1-for -5" additional service. The employees participating under section 19-2-706, MCA increased from 199 in fiscal year 2010 to 209 in fiscal year 2011.

The employer has up to ten years to complete payment for the service purchases and is charged the actuarially required rate of return as established by the PERB on the unpaid balance. Total retirement incentive contributions received, including interest, during fiscal year 2011 were \$82,925. As of June 30, 2011, outstanding balances were \$11,739.

A summary of contribution rates, funding progress, employer and employee contributions, and eligibility and benefits for each retirement plan is provided in the tables on the following pages.

The information presented in this schedule was determined as part of the actuarial valuations at the dates indicated in the table below. Additional information as of the latest actuarial valuation follows:

	Pension Plan Information Single Employer Systems	
	JRS	HPORS
Contributions (in thousands)		
Employer	\$1,477	\$4,542
Employee	479	1,268
License and registration fees		278
Actuarial valuation date	6/30/2011	6/30/2011
Actuarial cost method	Entry age	Entry age
Amortization method	Level percentage of payroll open	Level percentage of payroll open
Remaining amortization period	0	48.2 years
Asset valuation method	4-year smoothed market	4-year smoothed market
Actuarial assumptions:		
Investment rate of return	7.75%	7.75%
Projected salary increases	4.00%	4.00%
includes inflation factor	3.00%	3.00%
Merit	None	0%-7.3%
Benefit adjustments		
GABA	3% after 1 year	3% after 1 year
Non-GABA	Biennial increase to salary of active member in like position	2% per year of service, not to exceed 60% of probationary officer's base salary and the increase may not exceed 5% of the current benefit.

(1) Assets are larger than the past service liability, creating an unfunded credit; the credit is amortized over future costs.

**Schedule of Contribution Rates
Fiscal Year 2011**

Plan	Member	Employer	State
PERS-DBRP	6.9% for members hired prior to 7/1/ 2011. 7.9% for members hired after 07/1/ 2011 [19-3-315, MCA]	7.17% State & University 7.07% Local Governments 6.8% School Districts (K-12) [19-3-316, MCA]	0.1% Local Government payroll - paid from the General Fund [19-3-319, MCA] 0.37% School Districts (K-12) payroll – paid from the General Fund [19-3-319, MCA]
MPORS	7.0% - hired after 6/30/1975 & prior to 7/1/1979 & not electing GABA [19-9-710(b), MCA] 8.5% - hired after 6/30/1979 & prior to 7/1/1997 & not electing GABA [19-9-710(c), MCA] 9.0% - hired after 6/30/1997 & members electing GABA [19-9-710(d), MCA] & 19-9-710(2), MCA]	14.41% [19-9-703, MCA]	29.37% of salaries - paid from the General Fund [19-9-702, MCA]
FURS	9.5% - hired prior to 7/1/1997 & not electing GABA [19-13-601(2)(a), MCA] 10.7% - hired after 6/30/1997 & members electing GABA [19-13-601(2)(b), MCA]	14.36% [19-13-605, MCA]	32.61% of salaries - paid from the General Fund [19-13-604, MCA]
SRS	9.245% [19-7-403, MCA]	10.115% [19-7-404, MCA]	
HPORS	9.0% - hired prior to 7/1/1997 & not electing GABA 9.05% - hired after 6/30/1997 & members electing GABA [19-6-402, MCA]	26.15% [19-6-404(1), MCA] 10.18% of salaries - paid from the General Fund [19-6-404(2), MCA]	
JRS	7.0% [19-5-402, MCA]	25.81% [19-5-404, MCA]	
GWPORS	10.56% [19-8-502, MCA]	9.0% [19-8-504, MCA]	
VFCA			5.0% of fire insurance premiums - paid from the General Fund [19-17-301, MCA]
PERS-DCRP	6.9% for members hired prior to 7/1/2011. 7.9% for members hired on or after 7/1/2011. [19-3-315, MCA]	7.17% State & University 7.07% Local Governments 6.8% School Districts (K-12) [19-3-316, MCA]	0.1% Local Government payroll - paid from the General Fund 0.37% School Districts (K-12) payroll – paid from the General Fund [19-3-319, MCA]
TRS	7.15% [19-20-602, MCA]	9.85% State & University [19-20-605, MCA]	0.11% of members' salaries [19-20-604, MCA] 2.38% contribution of the total earned compensation of school district and community college active members [19-20-607, MCA]

Pension Plan Information
Schedules of Funding Progress
(in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
Single Employer Systems						
JRS (1)						
6/30/2011	61,274	43,414	(17,860)	141.13%	5,645	(316.38)%
HPORS (1)						
6/30/2011	95,274	155,742	60,468	61.17%	12,472	484.83%
Multiple Employer Systems						
PERS- DBRP						
6/30/2011	3,800,479	5,410,144	1,609,665	70.25%	1,071,376	150.24%
SRS						
6/30/2011	203,689	266,506	62,817	76.43%	57,041	110.12%
GWPORS						
6/30/2011	90,437	119,881	29,444	75.44%	38,306	76.87%
MPORS						
6/30/2011	221,669	401,381	179,712	55.23%	39,470	455.30%
FURS						
6/30/2011	219,959	355,188	135,229	61.93%	34,852	388.01%
TRS						
7/1/2011	2,866,500	4,658,600	1,792,100	61.50%	746,700	240.00%
Nonemployer Contributor						
VFCA						
6/30/2011	26,183	35,195	9,012	74.39%	N/A	N/A

(1) The multiyear schedule of funding progress for the HPORS and JRS are presented in the Required Supplementary Information (RSI) following the notes to the financial statements.

Pension Plan Information
Schedules of Employer Contributions and Other Contributing Entities
(in thousands)

System	Fiscal Year Ended June 30	Annual Required Contributions	Percentage Contributed	Annual Required State Contribution	Percentage Contributed
<u>SINGLE EMPLOYER SYSTEMS:</u>					
JRS (1)	2011	38,387	3,846.97%		
HPORS	2009	2,501	(165.97%)	286	100.00%
	2010	3,404	139.93%	287	100.00%
	2011	3,926	115.69%	278	100.00%
<u>MULTIPLE EMPLOYER SYSTEMS:</u>					
PERS-DBRP	2009	99,314	76.35%	357	100.00%
	2010	132,004	60.46%	537	100.00%
	2011	144,957	54.56%	546	100.00%
SRS	2009	6,507	79.81%		
	2010	7,735	72.88%		
	2011	8,747	68.75%		
GWPORS	2009	3,491	94.31%		
	2010	4,918	73.45%		
	2011	4,903	71.85%		
MPORS	2009	3,455	146.35%	10,186	100.00%
	2010	3,897	176.04%	10,932	100.00%
	2011	4,626	122.58%	11,594	100.00%
FURS	2009	118	3,852.37%	9,831	100.00%
	2010	850	603.77%	10,871	100.00%
	2011	1,342	373.29%	11,365	100.00%
VFCA – (Nonemployer Contributor)	2009			1,580	100.00%
	2010			1,575	100.00%
	2011			1,596	100.00%
TRS (2)	2009	80,998	100.00%		
	2010	90,947	98.30%		
	2011	91,859	98.30%		

(1) The actuarial value of assets is greater than the actuarial accrued liabilities for FY2007 - FY2010. The funding excess are large enough so that the sum of normal cost and the amortization of the funding excess is negative. Common actuarial practice is to set the ARC at zero. (No employer contribution would be required for these years.)

(2) The actuary valuations for 2009 changed as a result of using a new actuary in 2010.

Summary of Defined Benefit Retirement Plans Provisions as of June 30, 2011

Plan	Member's Highest Average Compensation (HAC)	Years of Service Required and/or Age Eligible for Benefit	Vesting
PERS-DBRP	Hired prior to 7/1/ 2011 - highest monthly compensation during any consecutive 36 months; Hired on or after 07/1/ 2011 - highest average compensation during any consecutive 60 months.	Hired prior to 7/1/2011: Age 60, 5 years of membership service; Age 65, regardless of membership service; or Any age, 30 years of membership service. Hired on or after 7/1/ 2011: Age 65, 5 years of membership service; Age 70, regardless of membership service.	5 years membership service
MPORS	Hired prior to 7/1/1977 – average monthly compensation of final year of service; hired on or after 7/1/1977 – final average compensation (FAC) for last consecutive 36 months	Normal retirement 20 years, regardless of age; Early retirement : age 50, 5 years of service	5 years membership service
FURS	Hired prior to 7/1/1981 and not electing GABA – highest monthly compensation (HMC); hired on or after 7/1/81 and those electing GABA – (HMC) during any consecutive 36 months	Normal retirement; 20 years, regardless of age; Early retirement age 50, 5 years of service, actuarially reduced	5 years membership service
SRS	Hired prior to 7/1/2011 - highest average compensation during any consecutive 36 months; hired on or after 7/1/2011 -highest average compensation during any consecutive 60 months	Normal retirement; 20 years regardless of age; Early retirement, age 50, 5 years of service, actuarially reduced	5 years membership service
HPORS	Highest average compensation during any consecutive 36 months	Normal retirement; 20 years of membership service regardless of age; Early retirement, 5 years of membership service, actuarially reduced from age 60	5 years membership service
JRS	Hired prior to 7/1/1997 and non-GABA prior to 1/1/1988 or 12/1/2005 – monthly compensation at time of retirement; hired on or after 7/1/1997 or electing GABA prior to 1/1/1988 or 12/1/2005 – HAC during any consecutive 36 months (relates directly to monthly benefit formula)	Normal retirement, Age 60, 5 years of membership service; Involuntary retirement any age with 5 years of membership service – involuntary termination, actuarially reduced	5 years membership service
GWPORS	Hired prior to 7/1/2011 - highest average compensation during any consecutive 36 months; hired on or after 7/1/2011 -highest average compensation during any consecutive 60 months	Normal retirement, age 50, 20 years of membership service; Early retirement (reduced benefit), age 55, vested members who terminate employment prior to 20 years of membership service	5 years membership service

Summary of Defined Benefit Retirement Plans Provisions as of June 30, 2011 (continued)

Plan	Member's Highest Average Compensation (HAC)	Years of Service Required and/or Age Eligible for Benefit	Vesting
VFCA		Normal retirement Age 55, 20 years of credited service (full benefit); age 60, 10 years of credited service (partial benefit). Additional benefits: members who retire after 4/25/2005 with greater than 20 years of credited service (with a maximum of 30 years) may receive additional benefits (maximum benefit \$225). Members who retire on or after 7/1/2011 and have greater than 30 years of credited service will receive \$7.50 per month for each additional year of credited service after 30 years if the pension trust fund is actuarially sound, amortizing any unfunded liabilities in 20 years or less. This determination will be made annually and a member's benefit will remain capped at \$225 a month (30 years of credited service) if the amortization period grows to greater than 20 years.	10 years of credited service
TRS	Final average compensation during any consecutive 3 years.	Age 60, 5 years of service, or any age with at least 25 years of service. Vested employees may retire at or after age 50 and receive reduced benefits.	5 years of membership service

Plan	Monthly Benefit Formula	Guaranteed Annual Benefit Adjustment (GABA)	Minimum Benefit Adjustment (Non-GABA)
PERS-DBRP	<p>(i) If less than 25 years of membership service, the greater of (a) 1/56 of HAC multiplied by years of service credit, or (b) the actuarial equivalent of double the member's regular contributions plus interest plus the actuarial equivalent of any additional contributions plus interest.</p> <p>(ii) If 25 years of membership service or more, (a) 1/50 of HAC multiplied by years of service credit or (b) the actuarial equivalent of double the member's regular contributions plus interest plus the actuarial equivalent of any additional contributions plus interest.</p> <p>Early retirement: Normal retirement benefit calculated using HAC, and service at early retirement and reduce for each month which the retirement age precedes the earlier of age 60 or the attainment of 30 years of service by 0.5% for the first 60 months and 0.3% for the next 60 months</p>	For retired members who have been retired at least 12 months, a Guaranteed Annual Benefit Adjustment (GABA) will be made each year equal to (i) 3% for members hired before July 1, 2007 and (ii) 1.5% for members hired on or after July 1, 2007.	

Summary of Defined Benefit Retirement Plans Provisions as of June 30, 2011 (continued)

Plan	Monthly Benefit Formula	Guaranteed Annual Benefit Adjustment (GABA)	Minimum Benefit Adjustment (Non-GABA)
MPORS	Hired before, July 1, 1977, 2.5% of average monthly compensation of final year of service multiplied by years of service credit. Hired on or after, July 1, 1977, 2.5% of FAC multiplied by years of service credit	Hired after June 1, 1997, or those electing GABA - after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit.	If hired before July 1, 1997 and member did not elect GABA, the monthly retirement, disability or survivor's benefit may not be less than 1/2 the compensation of a newly confirmed police officer in the current fiscal year in the city or town from which the member was last employed.
FURS	Members hired prior to July 1, 1981 and not electing GABA are entitled to the greater of: 2.5% of HAC times year of service credit; or (1) if less than 20 years of service, 2% of HMC times year of service credit; or (2) if more than 20 years of service, 50% of the member's HMC plus years of service in excess of 20 times HMC times 2.0%. Members hired after 6/30/1981 and those electing GABA receive 2.5% of HAC per year of service credit.	For retired members who became active members on or after July 1, 1997 and those who elected to be covered under this provision and who have been retired at least 12 months, a Guaranteed Annual Benefit Adjustment (GABA) will be made each year equal to 3%	For retired members who were hired prior to July 1, 1997 and who did not elect GABA, the minimum monthly benefit is provided equal to 50% of the current base compensation of a newly confirmed active firefighter of the employer that last employed the member as a firefighter.
SRS	2.5% of HAC per year of service credit	For retired members who have been retired at least 12 months, a Guaranteed Annual Benefit Adjustment GABA equal to (i) 3% for members hired before July 1, 2007 and (ii) 1.5% for members hired on or after July 1, 2007..	
HPORS	2.5% of HAC per year of service	For retired members who became active members on or after July 1, 1997 and those who elected to be covered under this provision and who have been retired at least 12 months, a Guaranteed Annual Benefit Adjustment (GABA) will be made each year equal to 3%	For retired members who were hired prior to July, 1 1997 and who did not elect GABA, the minimum monthly benefit provided is equal to 2% times service credits multiplied by the current base compensation of a probationary highway patrol officer. Such benefits may not exceed 60% of the current base compensation of a probationary highway patrol officer and the increase may not exceed 5% of the current benefit. For non-GABA members who retired prior to July, 1 1991, and meet eligibility requirements, a lump sum payment will be made each year based on the increase in the Consumer price Index
JRS	3.1/3% per year of current salary or highest average compensation for the first 15 years of service credit and 1.785% per year of the current salary or highest average compensation for serve credit over 15 years	For retired members who became active members on and after July 1, 1997 and those who elected to be covered under this provision and who have been retired at least 12 months, a Guaranteed Annual Benefit Adjustment (GABA) will be made each year equal to 3%	For retired members who were hired prior to July 1, 1997, and who did not elect GABA, the current salary of an active member in the same position is used to recalculate the monthly benefits

Summary of Defined Benefit Retirement Plans Provisions as of June 30, 2011 *(continued)*

Plan	Monthly Benefit Formula	Guaranteed Annual Benefit Adjustment (GABA)	Minimum Benefit Adjustment (Non-GABA)
GWPORS	2.5% of HAC times year of service credit	For retired members who have been retired at least 12 months, a Guaranteed Annual Benefit Adjustment (GABA) will be made each year equal to (i) 3% for members hired before July 1, 2007 and (ii) 1.5% for members hired on or after July 1, 2007	
VFCA	\$7.50 per month for each year of service credit, but not exceeding 30 years. Age 55 with 20 years of service credit or age 60 with 10 years of service credit.		
TRS	1.6667% of average final compensation (AFC) per year of service	A guaranteed annual benefit adjustment (GABA) of 1.5% is payable each January if the retiree has received at least 36 monthly retirement benefit payments prior to January 1 of the year in which the adjustment is to be made.	

Changes Since Last Valuation

1. Effective July 1, 2011 The compounded annual interest rate credited to the contributions transferred from the define benefit plan to the member's Defined Contribution Retirement Plan (DCRP) will be 7.75%.
2. For new members to (DBRP) hired on or after July 1, 2011 (a) Employee contribution to PERS will be 7.9% of salary. (b) Eligibility for early retirement changes to age 55 with a minimum of five years of membership service. (c) The Highest Average Compensation (HAC) used to calculate the retirement benefit will be based on a time period of 60 consecutive months. (d) Vesting 5 years of membership service. (e) For eligibility for benefit service retirement is age 65 with 5 years of membership service or age 70, regardless of membership service. (f) The multiplier used to calculate the retirement benefit will be: 1.5% per year if service is less than 10 years, 1.785% per year if the service is greater than or equal to 10 years but less than 30 years, 2% per year if service is greater than or equal to 30 years.
3. Effective October 1, 2011, for members hired on or after July 1, 2011, the PERS-DBRP member's early retirement benefit is the actuarial equivalent, with the exception that the benefit must be reduced using actuarially equivalent factors based on the most recent valuation of the system.
4. For new members to SRS and GWPORS the Highest Average Compensation (HAC) is based on 60 consecutive months.

NOTE 7. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. General

The State of Montana and the Montana University System (MUS) provide optional postemployment health care benefits in accordance with Montana Code Annotated, Title 2, Chapter 18, Section, 704 to the following employees and dependents who elect to continue coverage and pay administratively established premiums: (1) employees and dependents who retire under applicable retirement provisions, and (2) surviving dependents of deceased employees. Retirement eligibility criteria differ by retirement plan (See Note 6). Medical, dental, and vision benefits are available through this plan.

In accordance with Montana Code Annotated, Title 2, Chapter 18, Section, 704, the Montana University System (MUS) provides post-retirement health insurance benefits to employees who are eligible, to receive retirement benefits from the Teachers Retirement System, the Public Employees' Retirement System, or an annuity under the Optional Retirement Plan, and have been employed by the MUS for at least five years, are age 50, or have worked 25 years with the MUS. Spouses, unmarried dependent children, and surviving spouses are also eligible.

B. Plan Description

Both the State of Montana and MUS are agent multiple employer plans. The participating employers under the State Plan are Facility Finance Authority, Housing Authority, Public Employees' Retirement System (PERS), Montana State Fund (New Fund), and Teachers' Retirement System (TRS). The participating employers under the MUS plan are Dawson Community College (Dawson CC), Flathead Valley Community College (Flathead CC), Miles Community College (Miles CC), Montana State University – Billings (MSU-Billings), Montana State University – Bozeman (MSU-Bozeman), Montana State University – Great Falls College of Technology (MSU-GFCOT), Montana State University – Northern (MSU-Northern), University of Montana – Montana Tech (UM-MT Tech), Office of Commissioner on Higher Education (OCHE), State Bar, University of Montana – Helena College of Technology (UM-HCOT), University of Montana – Missoula (UM-Missoula), and University of Montana – Western (UM-Western). Each participating employer is required by GASB Statement No. 43 to disclose additional information regarding funding policy, the employer's annual OPEB cost and contributions made, the funded status and funding progress of the employer's individual plan, and actuarial methods and assumptions used.

Both of these plans allow retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in the reporting of an "implied rate" subsidy in the related financial statements and footnotes. While this liability is disclosed for financial statement purposes, it does not represent a legal liability of the State or any of its component units.

Both plans are reported as agency funds. There are no assets or liabilities as only contributions collected and distributions made are reflected in these funds. See the funding policy that follows.

C. Basis of Accounting

OPEB is recorded on an accrual basis for all enterprise and internal service funds as well as component units. OPEB is recorded on a modified accrual basis for the governmental funds. Plan member contributions are recognized in the period in which the contributions are made. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

The plan document states "an employee enrolled in the State Plan who (a) is eligible to draw a state retirement benefit at the time he or she leaves active state employment; and (b) makes arrangements with the EBB (Employee Benefits Bureau) within 60 days of the date active employee coverage ends to continue post-retirement coverage, may continue with the state group on a self-pay basis, retroactive back to the date active employee coverage was lost." Therefore, the plan does not include terminated employees who have accumulated benefits but are not yet receiving them. There have been no significant changes in the number covered or the type of coverage as of June 30, 2011.

The number of state participants as of December 31, 2010 follows:

State Plan Participants					Montana State Fund (New Fund)		
Enrollment	State	Facility Finance Authority	Housing Authority	PERS		TRS	Total
Active employees	12,329	3	21	34	274	16	12,677
Retired employees, spouses, and surviving spouses (1)	5,097	1	8	12	110	6	5,234
Total	17,426	4	29	46	384	22	17,911

- (1) Due to the inability to determine, without considerable effort, the last place an employee worked before retiring, the bulk of retirees are listed as State regardless of their last place of employment; however, on a forward going basis the last place an employee worked before retiring will be identifiable. Since we are unable to account for all retired employees last place of employment cumulatively an allocation method was used based on the accrued liability and ARC for active employees by component unit for the determination of the inactive liability by component unit.

The number of MUS participants as of June 30, 2011 follows:

MUS Plan Participants											
Enrollment	MSU-Billings	MSU-Bozeman	MSU-GFCOT	MSU-Northern	OCHE	UM-HCOT	UM-Missoula	UM-MT Tech	UM-Western	Other	Total
Active employees	482	2,771	115	199	86	80	2,345	396	174	319	6,967
Retired employees, spouses, and surviving spouses	177	923	21	105	29	29	844	143	63	77	2,411
Total	659	3,694	136	304	115	109	3,189	539	237	396	9,378

D. Funding Policy

The State of Montana and MUS pay for postemployment health care benefits on a pay-as-you-go basis. Montana Code Annotated, Title 2, Chapter 18, Part 8 gives authority for establishing and amending the funding policy to the Department of Administration. Montana Code Annotated, Title 20, Chapter 25, Part 13 gives authority for establishing and amending the funding policy to the Board of Regents for the MUS group health insurance plan.

As of June 2011, the State plan's administratively established retiree medical premiums vary between \$285 and \$982 per month depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental premiums vary between \$34.90 and \$59.36 and vision premiums vary between \$7.64 and \$22.26 depending on the coverage selected.

The MUS plan's administratively established retiree medical premiums vary between \$263 and \$982 per month and are revised annually. The plan provides different coinsurance amounts depending on whether members use preferred, non-preferred, or other hospitals. After an annual \$650 deductible for most non-Medicare-eligible retirees, the MUS plan reimburses 75% for the first \$1,300 in medical claims and 100% thereafter. There is an optional \$1,500 deductible plan available to retirees with a reduced premium. After the \$1,500 annual deductible, the plan pays 75% of the first \$3,000 and 100% thereafter. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare. As of June 30, 2011, 1,372 retirees (policyholders) were enrolled in the MUS plan.

E. Annual Other Postemployment Benefit Cost and Contributions

The annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of GASB Statement No. 45, represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The current State's ARC of \$33.986 million is 6.24% of annual covered payroll. The State's annual covered payroll is \$544.497 million. The current MUS's ARC of \$19.290 million is 5.03% of annual covered payroll. The MUS's annual covered payroll is \$383.487 million.

There are no long-term contracts for contributions to either plan. Contributions refer to contributions made in relation to the ARC. Since the State and MUS do not fund their plans, no contributions were made. Though payments are made on behalf of the retiree, the payment amounts are withheld from the retiree's retirement paycheck, thus net contributions on behalf of the retiree are zero.

The following table presents the OPEB cost for the year, the amount contributed, and changes in the OPEB plan for fiscal year 2011 (in thousands):

Annual OPEB Cost		
	State	MUS
Annual required contribution/OPEB cost	\$33,986	\$19,290
Interest on net OPEB obligation	5,204	2,389
Annual OPEB cost	39,190	21,679
Contributions made	-	-
Increase in net OPEB obligation	39,190	21,679
Net OPEB obligation – beginning of year	122,462	56,196
Net OPEB obligation – end of year	\$161,652	\$77,875

Note that the amounts in the State and MUS Annual OPEB Cost table above include component unit portions and therefore, will not match the Statement of Net Assets.

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2011 through 2008 was as follows (in thousands):

Contribution Ratio				
	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
State	6/30/2011	\$33,986	0%	\$161,652
	6/30/2010	33,986	0%	122,462
	6/30/2009	41,551	0%	84,869
	6/30/2008	41,551	0%	41,551
MUS	6/30/2011	19,290	0%	77,875
	6/30/2010	19,290	0%	56,196
	6/30/2009	17,332	0%	35,401
	6/30/2008	17,332	0%	17,332

F. Actuarial Methods and Assumptions

The State and MUS are required by GASB 45 to obtain an actuarial evaluation every other year. Since an actuarial report was prepared for December 31, 2009 and June 30, 2010, respectively an actuarial evaluation was not prepared for December 31, 2010 or June 30, 2011, respectively.

As of December 31, 2009, the State's actuarially accrued liability (AAL) for benefits was \$357.664 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$357.664 million, and the ratio of the UAAL to the covered payroll was 67.89%. The UAAL is being amortized as a level dollar amount over an open basis for 30 years.

In the December 31, 2009, actuarial valuation, the projected unit credit funding method was used for the State. The actuarial assumptions included a 4.25% discount rate and a 2.50% payroll growth rate. The projected annual healthcare cost trend rate is 10.00% for medical and 9.50% for prescription drugs, initially. Both medical costs and prescription drugs are reduced by decrements to a rate of 5.00%, medical costs after six years and prescription drugs after seven years.

As of June 30, 2010, the MUS actuarially accrued liability (AAL) for benefits was \$183.230 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$183.230 million, and the ratio of the UAAL to the covered payroll was 47.40%. The UAAL is being amortized as a level dollar amount over an open basis for 30 years.

In the June 30, 2010, actuarial valuation, the projected unit credit funding method was used for MUS. The actuarial assumptions included a 4.25% discount rate and a 2.50% payroll growth rate. The projected annual healthcare cost trend rate is 10.00% for medical and 9.50% for prescription drugs, initially. Both medical costs and prescription drugs are reduced by decrements to a rate of 5.00%, medical costs after six years and prescription drugs after seven years.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations, and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, is designed to present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liabilities for benefits.

Projections of benefits for financial reporting progress are based on the substantive plan (the plan as understood by the employer and the plan members), and includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

G. Termination Benefits

During the year ended June 30, 2011, the State made the following termination benefit arrangements: continued coverage of group health insurance benefits for four employees provided for up to six months and one-time incentive payments for eight employees, including payments to the retirement service purchase program. In determining termination benefit liability related to the continued coverage of group health insurance benefits, it was assumed that these benefits would be paid for the entire period of the arrangement.

During the year ended June 30, 2011, Component Units of the State made the following termination benefit arrangements: continued coverage of health insurance benefits for eight employees provided for up to twelve months and one-time incentive payments to two employees.

During the year ended June 30, 2011, the cost of termination benefits was \$117,167 and \$122,479 for the State and its Component Units, respectively.

Additional information as of the latest actuarial valuation for the State follows:

Other Postemployment Benefits State Agent Multiple Employer Plan		
	Retiree/Surviving Spouse	Spouse
Contributions (in thousands)		
Before Medicare eligibility	\$7,120	\$2,146
After Medicare eligibility	2,741	1,956
Actuarial valuation date	1/1/2009 (ARC calculated through December 31, 2009)	
Actuarial cost method	Projected unit credit funding	
Amortization method	Level percent of payroll, open	
Remaining amortization period	30 years	
Asset valuation method	Not applicable since no assets meet the definition of plan assets under GASB 43 or 45	
Actuarial assumptions:		
Discount rate	4.25%	
Projected payroll increases	2.50%	

**Other Postemployment Benefits
State Agent Multiple Employer Plan**

	Retiree/Surviving Spouse	Spouse
Participation		
Future retirees	55%	
Future eligible spouses	60%	
Marital status at retirement	70%	

Additional information as of the latest actuarial valuation for MUS follows:

**Other Postemployment Benefits
MUS Agent Multiple Employer Plan**

	Retiree/Surviving Spouse	Spouse
Contributions (in thousands)		
Before Medicare eligibility	\$5,611	\$1,777
After Medicare eligibility	3,059	1,297
Actuarial valuation date	7/1/2009 (ARC Calculated through June 30, 2010)	
Actuarial cost method	Projected unit credit funding	
Amortization method	Level percent of payroll, open	
Remaining amortization period	30 years	
Asset valuation method	Not applicable since no assets meet the definition of plan assets under GASB 43 or 45	
Actuarial assumptions:		
Discount rate	4.25%	
Projected payroll increases	2.50%	
Participation		
Future retirees	55%	
Future eligible spouses	60%	
Marital status at retirement	70%	

NOTE 8. RISK MANAGEMENT

There are three primary government public entity risk pools and one claims-servicing pool that are reported within the enterprise fund. These pools include Hail Insurance, the Montana University System (MUS) Group Insurance Plan, the MUS Workers Compensation Program, and the Subsequent Injury claims-servicing pool. The two component unit pools include Montana State Fund (New Fund) and Montana State Fund (Old Fund). Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other societal/economic factors. The primary government reports its own risk management activity within two internal service funds: Employees Group Benefits Plans and Administration Insurance Plans. In all of these funds, there are no significant reductions in insurance coverage from the prior year, nor any insurance settlements exceeding insurance coverage for the last three years. These funds use the accrual basis of accounting. By statute, these funds cannot invest in common stock, except for the Montana State Funds' funds. Investments are recorded at fair value. Premiums and discounts are amortized using the straight-line method over the life of the securities.

A. Public Entity Risk Pools

(1) Hail Insurance – Any Montana producer engaged in growing crops subject to destruction or damage by hail may participate in the Hail Insurance program. The Hail Insurance program issued 1,941 policies during the 2011 growing season. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs, and claims paid for hail damage. Depending upon the actuarial soundness of the reserve fund and the damage in a season, producers may receive a premium refund. Anticipated investment income is considered in computing a premium deficiency, of which there is none.

A claim must be submitted to the State Board of Hail Insurance within 14 days of a loss occurrence. The claim must indicate whether the grain is stemming, in the boot, heading out, in the milk, in the stiff dough, ready to bind, or combine. If beans, peas, or other crops are damaged, the growth-stage must also be indicated. Inspection of a crop will occur as promptly as possible after claim receipt. The liability on all insured crops expires after October 1. The insurance only covers loss or damage to growing grain that exceeds 5% destruction by hail.

The fund recorded a liability of \$164,440 based on estimated claims through June 30, 2011. Any crop insurance liability is paid to producers within one year of occurrence; therefore, liabilities are not discounted. The fund has no excess insurance, reinsurance, or annuity contracts.

(2) Montana University System (MUS) Group Insurance Plan – This plan was authorized by the Board of Regents to provide medical, dental, prescription drug and related group benefits coverage to employees of the Montana University System and affiliates, as well as their dependents, retirees, and COBRA members. The MUS Group Insurance Plan is fully self-insured, except for life insurance, long-term care, long-term disability, accidental death and dismemberment, and vision insurance. Delta Dental administers the dental plan and MedImpact is the administrator for the prescription drug program. Allegiance Benefit Plan Management is the claims administrator for the self-insured indemnity plan and a managed care plan. New West Health Services, Blue Cross and Blue Shield of Montana, and Peak Health administer claims for the three other managed care plans. Allegiance has a contract for utilization management; the utilization management program consists of hospital pre-authorization and medical necessity review. Premiums are collected from employees through payroll deductions and recorded in the MUS Group Insurance Enterprise Fund. The claims liability is calculated by Actuaries Northwest and estimated to be \$7.600 million as of June 30, 2011, based on prior year experience. A liability is reported in the accompanying financial statements for these estimated claims.

(3) Montana University System (MUS) Workers Compensation Program – This program was formed to provide self-insured workers compensation coverage for employees of the Montana University System. The Montana University System Board of Regents provides workers compensation coverage under Compensation Plan Number One (Title 39, Chapter 71, Part 2101, MCA). The program is self-insured for workers compensation claims to a maximum of \$500,000 per each occurrence; \$1,000,000 maximum per each aircraft related occurrence. Losses in excess of \$500,000/\$1,000,000 are covered by reinsurance with a commercial carrier. Employer's liability claims are covered to a maximum of \$1,000,000 above the self-insured amount of \$500,000. During fiscal year 2011, the program ceded \$250,215 in premiums to reinsurers.

Premium rates for all participating campuses are established by the MUS Workers Compensation Program Committee based on actuarial calculations of premium need and premium rate. Premium rates are adjusted periodically based on inflation, claims experience, and other factors. Premiums are recorded as revenue in the MUS Workers Compensation Program in the period for which coverage is provided. Members may be subject to supplemental assessments in the event of deficiencies. The program considers anticipated investment income in determining if a premium deficiency exists.

The fund recorded a liability of \$9.784 million for estimated claims at June 30, 2011. The liability is based on the estimated ultimate cost of settling the reported and unreported claims, and claims reserve development including the effects of inflation and other societal and economic factors. Estimated amounts of subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Estimated claims liabilities are recomputed periodically based on current review of claims information, experience with similar claims, and other factors. Adjustments to estimated claims liabilities are recorded as an increase or decrease in claims expense in the period the adjustments are made.

(4) Subsequent Injury – This fund provides benefits to certified disabled workers who are subsequently injured on the job and entitled to benefits under the Workers Compensation Act at the time of the subsequent injury. The liability of the insurer

for payment of compensation benefits is limited to 104 weeks of benefits actually paid. This fund will reimburse the insurer for all benefits paid after this 104-week time period.

Workers compensation insurance premium experience modification factors are influenced only by the two-year limitation. This fund provides employers with a potential incentive for hiring a person with a certified disability.

This fund makes no provision for insured events of the current year. All Montana insurers are annually assessed a percentage of their paid losses sufficient to cover paid losses reimbursed from the fund in the preceding fiscal year and the expenses of administration, less other income. An estimated liability is recorded based on a projected cost analysis total population of registered Subsequent Injury Fund participants. As of June 30, 2011, the amount of this liability was estimated to be \$3.351 million. Since each insurer is responsible for its own claim liabilities, the pool is acting as a claims service and there is no transfer or pooling of risk.

(5) Montana State Fund (New Fund) – This fund provides liability coverage to employers for injured employees who are insured under the Workers Compensation and Occupational Disease Acts of Montana and workers compensation claims occurring on or after July 1, 1990. The New Fund is a self-supporting, competitive State fund, and functions as the guaranteed market. At June 30, 2011, approximately 24,780 employers were insured with the New Fund. Anticipated investment income is considered for computing a premium deficiency, and employers must pay premiums to the New Fund within specified time frames.

An actuarial study prepared by Towers Watson, as of June 30, 2011, estimated the cost of settling claims that have been reported, but not settled; and claims that have been incurred, but not reported. Due to the fact that actual claim costs depend on such complex factors as inflation and changes in the law claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques in order to produce current estimates that reflect recent settlements, claim frequency, and other economic and societal factors.

A provision for inflation is implicit in the calculation of estimated future claim costs because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. As of June 30, 2011, \$874.803 million of unpaid claims and claim adjustment expenses were presented at face value.

Acquisition costs represent costs associated with the acquisition of new insurance contracts or renewal of existing contracts and include agent commissions and expenses incurred in the underwriting process. New Fund acquisition costs are capitalized and amortized ratably over the subsequent year. The amount of capitalized acquisition costs for the fiscal year ended June 30, 2011, was \$4.2 million.

MCA 39-71-2311 requires the New Fund set premiums at least annually at a level sufficient to insure adequate funding of the insurance program during the period the rates will be in effect. It also requires the New Fund to establish a minimum surplus above risk-based capital requirements to support the New Fund against risks inherent in the business of insurance.

For the fiscal year ended June 30, 2011, the New Fund ceded premiums to other reinsurance companies to limit the exposure arising from large losses. These arrangements consist of excess of loss contracts that protect against individual occurrences over stipulated amounts, and an aggregate stop loss contract which protects the New Fund against the potential that aggregate losses will exceed expected levels expressed as a percentage of premium. For fiscal year 2011, the excess of loss contract provides coverage up to \$100 million in which New Fund retains the first \$5 million for the first layer of reinsurance coverage. The excess of loss protection applies to an individual occurrence with the maximum of \$5 million on any one life.

The term of the current aggregate stop loss contract was July 1, 2008 through June 30, 2011. The contract provides coverage based on the New Fund's premium levels not to exceed 15% of the subject net earned premium. In the event reinsurers are unable to meet their obligations, under either the excess of loss contracts or the aggregate stop loss contract, the New fund would remain liable for all losses, as the reinsurance agreements do not discharge the New Fund from its primary liability to the policyholders.

Premium revenue was reduced by premiums paid for reinsurance coverage of \$11.3 million in fiscal year 2011.

Estimated claim reserves were reduced by \$8.0 million for fiscal year 2011 for the amount of reinsurance estimated to be ultimately recoverable on incurred losses due to the excessive loss reinsurance contract. In fiscal year 2011, estimated claim reserves were reduced by an additional \$21.2 million for the amount of reinsurance estimated to be ultimately recoverable on incurred losses due the aggregate stop loss contract.

(6) Montana State Fund (Old Fund) – The liability and payment of workers compensation claims for incidents occurring before July 1, 1990, are reported in the Old Fund.

An actuarial study prepared by Towers Watson, as of June 30, 2011, estimated the cost of settling claims that have been reported, but not settled; and claims that have been incurred, but not reported. At June 30, 2011, \$64.621 million of unpaid claims and claim adjustment expenses were reported at face value. The liability presented on a discounted basis would be \$52.9 million, assuming that the Old Fund were to acquire a large sum that could be invested to support the liability and discount the payable at a rate of 2.5% (approximating current market rates).

(7) Changes in Claims Liabilities for the Past Two Years – As indicated above, these funds establish liabilities for both reported and unreported insured events including estimates of future payments of losses and related claim adjustment expenses. The following tables present changes (in thousands) in those aggregate liabilities during the past two years. All information in these tables is presented at face value and has not been discounted.

	<u>Primary Government</u>				<u>MUS Workers Compensation Program</u>	
	<u>Hail Insurance</u>		<u>MUS Group Insurance Plan</u>			
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Unpaid claims and claim adjustment expenses at beginning of year	\$ 238	\$ 354	\$ 6,600	\$ 6,900	\$ 8,801	\$ 7,733
Incurred claims and claim adjustment expenses:						
provision for insured events of the current year	6,309	3,961	67,327	67,096	3,608	2,959
Increase (decrease) in provision for Insured events of prior years	640	(255)	-	-	(53)	256
Total incurred claims and claim adjustment expenses	6,949	3,706	67,327	67,096	3,555	3,215
Payments:						
Claims and claim adjustment expenses attributable to insured events of the current year	(6,144)	(3,723)	(66,327)	(67,396)	(742)	(572)
Claims and claim adjustment expenses attributable to insured events of prior years	(879)	(99)	-	-	(1,830)	(1,575)
Total payments	(7,023)	(3,822)	(66,327)	(67,396)	(2,572)	(2,147)
Total unpaid claims and claim adjustment expenses at end of year	\$ 164	\$ 238	\$ 7,600	\$ 6,600	\$ 9,784	\$ 8,801

	<u>Component Units</u>			
	<u>Montana</u>		<u>Montana</u>	
	<u>State Fund (New)</u>		<u>State Fund (Old)</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Unpaid claims and claim adjustments expenses at beginning of year	\$ 838,765	\$ 813,305	\$ 71,136	\$ 79,163
Incurring claims and claim adjustment expenses:				
provision for insured events of the current year	143,338	144,893	-	-
Increase (decrease) in provision for insured events of prior years	7,323	8,202	2,443	1,102
Total incurred claims and claim adjustment expenses	150,661	153,095	2,443	1,102
Payments:				
Claims and claim adjustment expenses attributable to insured events of the current year	(27,924)	(25,478)	-	-
Claims and claim adjustment expenses attributable to insured events of prior years	(86,699)	(102,157)	(8,958)	(9,129)
Total payments	(114,623)	(127,635)	(8,958)	(9,129)
Total unpaid claims and claim adjustment expenses at end of year	\$ 874,803	\$ 838,765	\$ 64,621	\$ 71,136

B. Entities Other Than Pools

(1) Employee Group Benefits Plans – The medical and dental health plans provided by the State are fully self-insured with the State assuming the risk for claims incurred by employees of the State, elected officials, retirees, former employees covered by COBRA benefits, and their dependents. The State contracts with Blue Cross/Blue Shield, New West, and MedImpact for administration of its self-insured plans. Contributions are collected through payroll deductions, deductions through the Public Employees Retirement Administration, the Legislative Branch, and self-payments, and are recorded as revenue in the Employee Group Benefits Internal Service Fund. At June 30, 2011, estimates for claims liabilities, which include both incurred but not reported claims and grandfathered claims resulting from a 1998 change in period for which the benefit coverage is available, as well as other actuarially determined liabilities, were \$14.400 million based on a formula provided by Actuaries Northwest, a consulting actuarial firm, of which \$12.528 million is estimated to be paid in fiscal year 2012.

(2) Administration Insurance Plans – This self-insurance plan provides coverage for general liability, automobile liability, automobile physical damage, foster care liability, and state-administered foreclosure of housing units. The State self-insures the \$500,000 deductible per occurrence for most property insurance, as well as various deductible amounts for other state property. The State also self-insures against losses of property below \$500,000 of value, with state agencies paying the first \$1,000. Commercial property insurance protects approximately \$4.8 billion of state-owned buildings and contents. The State's property insurance includes separate earthquake and flood protection coverage, with deductibles of \$500,000 for earthquake and \$500,000 for flood per occurrence. Premiums are collected from all state agencies, including component units, and recorded as revenue in the Administration Insurance Internal Service Fund.

An annual actuarial study, prepared by Towers Watson Company, and issued for the accident period July 1, 2001 through June 30, 2011, is the basis for estimating the liability for unpaid claims and is supported by historical loss data. The June 30, 2011, estimated claims liability was \$17.962 million.

(3) Changes in Claims Liabilities for the Past Two Years – These funds establish liabilities for both reported and incurred, but not reported, claims. Grandfathered claims are not included as they relate to future claims not yet incurred. The following table presents changes in the balances of claims liabilities during the past two fiscal years (in thousands).

	Employees Group Benefits Plans		Administration Insurance Plans	
	2011	2010	2011	2010
Amount of claims liabilities at the beginning of each fiscal year	\$ 11,460	\$ 11,960	\$ 16,674	\$ 14,956
Incurred claims:				
Provision for insured events of the current year	124,335	123,941	5,697	5,333
Increases (decreases) in provision for insured events of prior years	(1,226)	(2,425)	(53)	1,311
Total incurred claims	123,109	121,516	5,644	6,644
Payments:				
Claims attributable to insured events of the current year	(114,349)	(111,462)	(1,560)	(1,223)
Claims attributable to insured events of prior years	(7,692)	(10,554)	(2,796)	(3,703)
Total payments	(122,041)	(122,016)	(4,356)	(4,926)
Total claims liability at end of each fiscal year	\$ 12,528	\$ 11,460	\$ 17,962	\$ 16,674

NOTE 9. COMMITMENTS

A. Highway Construction

At June 30, 2011, the Department of Transportation had contractual commitments of approximately \$316.4 million for construction of various highway projects. Funding for these highway projects is to be provided from federal grants and matched with state special revenue funds.

B. Capital Construction

At June 30, 2011, the Department of Administration, Architecture & Engineering Division, had commitments of approximately \$15.6 million for capital projects construction. The primary government will fund \$12.9 million of these projects, with the remaining \$2.7 million coming from the state university system.

C. Coal Tax Loan and Mortgage Commitments

The Board of Investments (BOI) makes firm commitments to fund loans from the Coal Severance Tax Permanent Trust Fund. These commitments have expiration dates and may be extended according to BOI policies. As of June 30, 2011, the BOI had committed, but not yet purchased, \$15,834,799 in loans from Montana lenders, compared to \$28,712,720 as of June 30, 2010. In addition to the above commitments, lenders had reserved \$8,189,839 for loans as of June 30, 2011, compared to \$24,002,450 on the same date in 2010.

The BOI makes reservations to fund mortgages from the state's pension funds. Prior to May 1, 2011, the Public Employees' and Teachers' retirement funds provided resources for residential mortgage purchases. Effective May 1, 2011, the Montana Retirement Funds Bond Pool holds the residential mortgages in its portfolio. As of June 30, 2011 and 2010, there were no mortgage reservations. Effective December 1, 2005, all BOI residential mortgage purchases are processed by the Montana Board of Housing (MBOH). The MBOH does not differentiate between a mortgage reservation and a funding commitment.

D. Department of Corrections Bond Commitments

At June 30, 2011, the outstanding tax-exempt bonds issued by the Montana Facility Authority were issued in the amount of \$29,521,533. These bonds have been issued to facilities operating treatment and prerelease centers. The Department of Corrections agrees to provide payment on behalf of the contractors for the total principal and interest payments in regard to these outstanding bonds.

E. Proprietary Fund Commitments

Budgets are administratively established in the enterprise and internal service funds, excluding depreciation, compensated absences, and bad debt expense. Appropriations may be committed for goods/services that are not received as of fiscal year-end. These executory commitments are included in unrestricted net assets in the accompanying financial statements as follows (in thousands):

Proprietary Fund Commitments

<u>Enterprise funds</u>	<u>Amount</u>
Historical Society Publications	\$ 15
Liquor Warehouse	98
Other	192
Subtotal-Enterprise funds	<u>\$ 305</u>
 <u>Internal service funds</u>	
Administration Supply	33
Buildings & Grounds	477
DEQ Indirect Cost Pool	27
Information Technology Services	2,612
FWP Equipment	18
Labor Central Services	87
Prison Industries	53
Other Internal Services	4
Subtotal-Internal service funds	<u>\$ 3,311</u>

F. Encumbrances

As of June 30, 2011, the State of Montana encumbered expenditures as presented by in the table below (in thousands):

	General	State Special	Federal Special	Nonmajor	
	Fund	Revenue	Revenue	Governmental	
	Fund	Fund	Fund	Funds	Total
Encumbrances	\$ 24,595	\$ 60,703	\$ 28,426	\$ 832	\$ 114,556

NOTE 10. LEASES/INSTALLMENT PURCHASES PAYABLE

The State has entered into various capital and operating leases for land, buildings, equipment, and computer software. Lease contracts are required by law to contain a clause indicating continuation of the lease is subject to funding by the Legislature. It is expected, in the normal course of operations, that most of these leases will be replaced by similar leases.

A. Capital Leases/Installment Purchases

Obligations under capital leases/installment purchases at June 30, 2011, were as follows (in thousands):

Fiscal Year Ending June 30	Primary Government		Discretely Presented Component Units
	Governmental Activities	Business- Type Activities	
2012	\$ 778	\$ 99	\$172
2013	475	95	127
2014	238	91	80
2015	125	87	63
2016	55	61	9
2017-2021	36	-	-
Total minimum	1,707	433	451
Less: interest	(171)	(51)	(45)
Present value of minimum payments	\$1,536	\$ 382	\$406

Assets acquired under capital leases for the primary government by asset class were as follows (in thousands):

Asset Class	Primary Government
Buildings	\$ 1,434
Equipment	4,762
Less: Accum Depreciation	(3,371)
Net Book Value	\$2,825

B. Operating Leases

Primary government rental payments for operating leases in fiscal year 2011 totaled \$21,264,431. Future rental payments under operating leases are as follows (in thousands):

Fiscal Year Ending June 30	Primary Government		Discretely Presented Component Units
	Governmental Activities	Business-Type Activities	
2012	\$ 19,079	\$ 553	\$ 3,802
2013	18,380	487	3,664
2014	16,481	457	3,386
2015	13,454	399	3,121
2016	8,920	317	2,456
2017-2021	26,698	455	7,128
2022-2026	5,970	-	1,176
Thereafter	979	-	3,293
Total future rental payments	\$109,961	\$ 2,668	\$28,026

NOTE 11. STATE DEBT**A. General Information**

The State has no constitutional limit on its power to issue obligations or incur debt, other than a provision that no debt may be created to cover deficits incurred because appropriations exceeded anticipated revenues. No state debt shall be created unless authorized by a two-thirds vote of the members of each house of the legislature or a majority of the electors voting thereon. The Board of Examiners (consisting of the Governor, Secretary of State, and Attorney General) is authorized, pursuant to various enabling acts, to issue bonds and notes of the State.

B. Short-term Debt

The Board of Examiners, upon recommendation of the Department of Administration, may issue notes in anticipation of the receipt of taxes and revenues. No notes may be issued to refund outstanding notes.

During fiscal year 2011, the State issued two bond anticipation notes that pertain to drinking water, wastewater and irrigation, and one bond anticipation note related to drinking water. The proceeds were used for water system improvements and to fund local governments to rehabilitate irrigation and water systems, respectively. The State issued two bond anticipation notes during fiscal year 2010, that were active in fiscal year 2011, which pertained to irrigation and water. The proceeds were used to loan funds to local governments to rehabilitate irrigation and water systems. The following schedule summarizes the activity for the year ended June 30, 2011 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
BANs				
Irrigation – 2009A	1,556	-	1,556	-
Irrigation – 2009B	388	-	388	-
Irrigation – 2011 A	-	1,179	-	1,179
Irrigation – 2011 B	-	1	-	1
RANs				
Drinking Water – 2011A	-	850	-	850

The Board of Investments (BOI) of the State of Montana is authorized to issue Intermediate Term Capital (INTERCAP) bonds under the Municipal Finance Consolidation Act. These bonds may not aggregate more than \$190 million as amended by the 2007 Legislature. The purpose of the bonds is to provide funds for the BOI to make loans to eligible government units. The bonds are limited obligations of the BOI, payable solely from (1) repayments of principal and interest on loans made by the BOI to participating eligible governmental units, (2) investment income under the indenture, and (3) an irrevocable pledge by the BOI. The BOI has no taxing power. Bondholders may elect to have their bonds purchased by the trustee on March 1 of each year until maturity. These issues are considered to be demand bonds and are included in short-term debt. The amounts issued and outstanding at June 30, 2011, were as follows (in thousands):

Series	Amount Issued	Balance June 30, 2011
1997	10,000	\$ 9,280
1998	12,500	11,930
2000	15,000	14,565
2003	15,000	14,605
2004	18,500	18,290
2007	15,000	14,860
2010	12,000	12,000
Total		<u>\$95,530</u>

The following schedule summarizes the activity relating to the demand bonds during the year ended June 30, 2011 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
Demand bonds	\$96,075	\$ -	\$545	\$95,530

C. Long-term Debt

The full faith, credit, and taxing powers of the State are pledged for the payment of all general obligation debt. Revenue and mortgage bonds are secured by a pledge from the facilities to which they relate and by certain other revenues, fees, and assets of the State and the various colleges and universities. Primary government bonds and notes outstanding at June 30, 2011, were as follows (in thousands):

Governmental Activities	Series	Amount Issued	Interest Range (%) (1)	Principal Payments		Balance June 30, 2011
				Fiscal Year 2012	In Year of Maturity (2)	
General obligation bonds						
Drinking Water Revolving Fund (3)	1998F	\$ 3,065	3.6-4.85	\$ 170	200 (2016)	\$ 925
Long-Range Bldg Program	2001B	11,430	4.1-5.75	535	535 (2012)	535
Long-Range Bldg Program	2002B	10,475	3.35-4.7	510	730 (2023)	6,990
Hard Rock Mining Reclamation	2002C	2,500	3.5-4.7	110	200 (2023)	1,795
Long-Range Bldg Program	2003A	9,730	2.37-4.0	465	655 (2024)	6,890
Energy Conservation Program (5)	2003B	1,250	2.0-3.0	135	145 (2014)	420
Water Pollution Control Revolving Fund (3)	2003D	2,730	2.0-3.1	180	190 (2014)	555
Drinking Water Revolving Fund (3)	2003E	1,675	2.0-3.1	110	115 (2014)	335
Long-Range Bldg Program Refunding	2003G	26,610	2.0-5.0	1,875	2,310 (2017)	12,505
Water Pollution Control Revolving Fund (3)	2004A	2,665	2.0-3.8	705	705 (2012)	705
Long-Range Bldg Program	2004B	3,125	3.0-4.75	180	170 (2025)	2,165
Long-Range Bldg Program Refunding	2005A	14,945	3.0-5.25	1,330	1,205 (2019)	11,910
Long-Range Bldg Program	2005B	1,670	3.25-4.3	70	120 (2026)	1,370
Energy Conservation Program (5)	2005C	2,500	3.25-4.0	255	290 (2016)	1,355
CERCLA Program (6)	2005D	2,000	3.25-4.3	85	140 (2026)	1,635
Drinking Water Revolving Fund (3)	2005F	3,875	4.0-4.75	235	350 (2021)	2,865
Water Pollution Control Revolving Fund (3)	2005G	2,110	4.0-4.75	125	190 (2021)	1,555
Long-Range Bldg Program Refunding	2005H	10,055	3.0-5.0	895	1,300 (2020)	9,700
Long-Range Bldg Program	2006A	31,350	4.0-5.0	1,465	1,930 (2027)	26,280
Energy Conservation Program (5)	2006B	3,750	4.0-6.0	220	330 (2022)	3,000
CERCLA Program (6)	2006C	1,000	4.0	100	120 (2017)	650
Renewable Resource Program (4)	2006D	950	5.6-6.0	55	90 (2022)	775
Long-Range Bldg Program Refunding	2007A	16,740	4.25-5.0	1,865	2,465 (2018)	14,955
Long-Range Bldg Program	2007D	11,720	4.375-4.75	445	3,865 (2028)	10,505
Long-Range Bldg Program	2008D	3,100	3.375-4.35	115	220 (2028)	2,675
Long-Range Bldg Program Refunding	2010A	20,220	2.0-4.0	3,135	710 (2021)	17,020
Drinking Water Revolving Fund Refunding (3)	2010B	5,400	2.0-4.0	410	110 (2026)	5,330
Water Pollution Control Revolving Fund Refunding (3)	2010C	6,450	2.0-4.0	465	210 (2026)	6,385
Trust Land	2010F	21,000	1.55-4.9	600	1,450 (2031)	21,000
Long-Range Bldg Program	2010G	550	1.5-2.7	40	60 (2021)	550
Renewable Resource Program (Taxable) (4)	2010H	1,000	1.0-3.85	70	115 (2021)	1,000
Total general obligation bonds		<u>\$235,640</u>		<u>\$16,955</u>		<u>\$174,335</u>

Governmental Activities	Series	Amount Issued	Interest Range (%) (1)	Principal Payments		Balance June 30, 2011
				Fiscal Year 2012	In Year of Maturity (2)	
Special revenue bonds						
State Hospital Project (7)	1997	\$ 25,915	4.0-5.05	\$ 1,115	1,820 (2022)	\$ 15,865
Renewable Resource Program (8)	2001B	1,750	5.2-7.1	85	140 (2020)	995
Renewable Resource Program Refunding (8)	2001C	12,155	2.55-4.3	1,045	500 (2013)	1,545
Renewable Resource Program (8)	2001E	885	2.1-4.85	40	65 (2022)	570
Renewable Resource Program (8)	2001F	900	3.3-6.2	40	75 (2022)	615
Developmental Center Project Refunding (7)	2003	11,510	3.0-5.0	715	970 (2019)	6,675
Renewable Resource Program (8)	2003A	3,000	1.05-4.05	130	215 (2024)	2,180
Renewable Resource Program (8)	2004B	430	4.45-5.45	25	40 (2020)	295
U.S. Highway 93 GARVEES (9)	2005	122,795	3.65-5.19	7,670	11,315 (2020)	84,325
U.S. Highway 93 GARVEES (9)	2008	44,670	3.5-5.0	2,505	3,925 (2023)	37,525
Broadwater Power Proj Refunding (8)	2010A	10,180	3.0-4.0	1,325	1,605 (2018)	10,180
Renewable Resource Program (8)	2010B	1,730	2.0-3.6	70	115 (2031)	1,730
Renewable Resource Program (Taxable) (8)	2010C	6,720	0.9-4.2	325	1,280 (2013)	6,720
Total special revenue bonds		\$242,640		\$ 15,090		\$169,220
Notes payable						
Water Conservation (Little Dry Project) (10)		\$ 50	5.0	\$ 1	1 (2012)	\$ 1
Water Conservation (Petrolia Project) (10)		50	5.0	2	2 (2016)	12
Middle Creek Dam Project (11)		3,272	8.125	58	219 (2034)	2,533
Tongue River Dam Project (12)		11,300	-	290	290 (2038)	7,823
Total notes payable		\$ 14,672		\$ 351		\$ 10,369
Subtotal governmental activities, before deferred balances						353,924
Deferred amount on refunding						(3,514)
Unamortized discount						(28)
Unamortized premium						7,790
Total governmental activities		\$492,952		\$32,396		\$358,172
Business-type Activities						
Bonds/notes payable						
Economic Development Bonds (13)						
Municipal Finance Consolidation Act Bonds (Irrigation Program) (14)	1988	\$ 4,976	6.60-7.75	\$ 60	70 (2014)	\$ 195
Total bonds/notes payable		4,976		60		195
Total business-type activities		\$ 4,976		\$ 60		\$ 195

- (1) The interest range is over the life of the obligation.
- (2) Year of maturity refers to fiscal year.
- (3) These bonds provide matching funds to enable the State to obtain capitalization grants from the U.S Environmental Protection Agency for water system development loans to state political subdivisions.
- (4) The general obligation Renewable Resource Program Bonds are secured additionally by a pledge of, and payable from, certain coal severance taxes. The bonds are also secured by a pledge of loan repayments from loans made from the bond proceeds.
- (5) Bonds issued for financing the design, construction, and installation of energy conservation projects at various state buildings.
- (6) The CERCLA (Comprehensive Environmental Response, Compensation, and Liability Act) Program Bonds were issued for the purpose of financing the costs of State of Montana participation in the remedial actions under Section 104 of the CERCLA 42

United States Code Sections 9601-9657, and State of Montana costs for maintenance of sites under CERCLA. The CERCLA Bonds are secured additionally by a pledge of monies received by the State as cost recovery payments and revenues derived from the resource indemnity and groundwater assessment tax in the event cost recovery payments are insufficient.

- (7) Facility Finance Authority loan to the Department of Public Health and Human Services for the Montana Developmental Center Project and the Montana State Hospital Project.
- (8) Issued by the Department of Natural Resources and Conservation and backed by a pledge of coal severance taxes and project revenues.
- (9) The U.S. Highway 93 GARVEES (Grant Anticipation Revenue Vehicles) Bonds were issued for the purpose of improving a 44.8-mile stretch of U.S. Highway 93. Repayment of the bonds is secured by a pledge of certain federal aid revenues.
- (10) Loans obtained from Farmers Home Administration for the purpose of acquiring an irrigation (pumping) system for water distribution in the vicinity of Sidney, Montana (Little Dry Project) and to rehabilitate the Petrolia Reservoir and Canal in the vicinity of Winnett, Montana (Petrolia Project). A portion of the revenues generated by the facilities is pledged for repayment of the loans.
- (11) U.S. Bureau of Reclamation loan to Montana Department of Natural Resources & Conservation.
- (12) Northern Cheyenne Tribe loan to the Montana Department of Natural Resources & Conservation. The loan will not accrue interest and will be repaid over 39 years. Loan repayment is secured by the issuance of a coal severance tax bond to the tribe.
- (13) Economic Development Bonds & Municipal Finance Consolidation Act Bonds – This program is directed by the Board of Investments, which is attached to the Department of Commerce for administrative purposes. The program assists Montana's small businesses and local governments in obtaining low-cost financing.
- (14) These bonds were issued to obtain funds for the Board of Investments, State of Montana, to purchase the refunding bonds of participating Irrigation Districts for the purpose of prepaying the U.S. Department of Interior, Bureau of Reclamation Projects Loans. The Irrigation Bonds, and the interest thereon, are payable solely from the collection of a special tax or assessment, which is a lien against real property in the Irrigation District. The Irrigation Bonds are limited obligations of the Board of Investments, due to an irrevocable pledge to lend money for deposit by the trustee of the Irrigation District Pooled Loan Program Reserve Account E in an amount equal to any deficiencies therein, on any payment date. The indenture does not permit the issuance of additional bonds.

D. Debt Service Requirements

Primary government debt service requirements at June 30, 2011, were as follows (in thousands):

Year Ended June 30	Governmental Activities					
	General Obligation Bonds		Special Revenue Bonds		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 16,955	\$ 7,062	\$ 15,090	\$ 7,763	\$ 351	\$ 45
2013	17,085	6,150	15,155	7,136	353	45
2014	17,650	5,517	15,290	6,489	355	45
2015	16,035	4,872	15,955	5,810	368	45
2016	14,810	4,243	16,680	5,081	370	45
2017-2021	54,155	13,088	76,290	13,041	1,892	224
2022-2026	24,720	5,334	12,950	1,289	1,993	224
2027-2031	12,925	1,140	1,810	160	2,127	224
2032-2036	-	-	-	-	1,981	134
2037-2041	-	-	-	-	579	-
Total	\$174,335	\$ 47,406	\$169,220	\$ 46,769	\$ 10,369	\$ 1,031

Business-type Activities

Year Ended June 30	Economic Development Bonds	
	Principal	Interest
2012	\$ 60	\$ 13
2013	65	8
2014	70	2
Total	\$ 195	\$ 23

Debt service requirements of discretely presented component units at June 30, 2011, were as follows (in thousands):

Year Ended June 30	Housing Authority		Montana State University		University of Montana	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$136,705	\$ 31,429	\$ 3,837	\$ 6,432	\$ 6,165	\$ 5,555
2013	12,615	30,807	5,774	4,579	6,392	5,323
2014	13,675	30,249	5,955	4,336	6,639	5,067
2015	14,445	29,641	6,240	4,077	6,882	4,805
2016	14,760	28,982	6,370	3,815	7,055	4,547
2017-2021	92,025	132,941	35,835	14,506	39,720	18,383
2022-2026	123,395	106,963	19,230	7,457	40,815	8,188
2027-2031	150,460	72,038	11,245	4,449	10,690	1,829
2032-2036	143,360	35,485	12,600	1,441	2,140	150
2037-2041	67,645	7,333	-	-	-	-
2042-2046	8,485	455	-	-	-	-
Total	\$777,570	\$506,323	\$107,086	\$ 51,092	\$126,498	\$ 53,847

E. Summary of Changes in Long-term Liabilities Payable

Primary government long-term liability activity for the year ended June 30, 2011, was as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due In More Than One Year
<u>Governmental activities</u>						
Bonds/notes payable						
General obligation bonds	\$169,150	\$ 22,550	\$ 17,365	\$174,335	\$16,955	\$157,380
Special revenue bonds	176,570	18,630	25,980	169,220	15,090	154,130
Notes payable	10,717	-	348	10,369	351	10,018
	356,437	41,180	43,693	353,924	32,396	321,528
Deferred amount on refunding	(3,735)	1,650	1,429	(3,514)	-	(3,514)
Unamortized discount	(95)	67	-	(28)	-	(28)
Unamortized premium	8,300	-	510	7,790	-	7,790
Total bonds/notes payable	360,907	42,897	45,632	358,172	32,396	325,776
Other liabilities						
Lease/installment purchase payable	2,440	169	1,073	1,536	703	833
Operating lease rent holiday	-	83	-	83	-	83
Compensated absences payable (1)	95,500	48,013	50,683	92,830	50,335	42,495
Early retirement benefits payable (1)	30	-	4	26	7	19
Arbitrage rebate tax payable (1)	241	-	133	108	1	107
Estimated insurance claims (1)	29,684	4,556	1,878	32,362	16,151	16,211
Pollution Remediation	533,762	107,563	117,987	523,338	47,575	475,763
OPEB implicit rate subsidy (2)	117,971	37,736	-	155,707	-	155,707
Total other liabilities	779,628	198,120	171,758	805,990	114,772	691,218
Total governmental activities						
Long-term liabilities	\$1,140,535	\$241,017	\$217,390	\$1,164,162	\$147,168	\$1,016,994
<u>Business-type activities</u>						
Bonds/notes payable						
Economic Development Bonds	\$ 370	\$ -	\$ 175	\$ 195	\$ 60	\$ 135
Total bonds/notes payable	370	-	175	195	60	135
Other liabilities						
Lease/installment purchase payable	-	457	75	382	80	302
Compensated absences payable	1,594	811	852	1,553	843	710
Arbitrage rebate tax payable	12	-	1	11	11	-
Estimated insurance claims	18,851	2,735	687	20,899	9,769	11,130
OPEB implicit rate subsidy (2)	2,083	663	-	2,746	-	2,746
Total other liabilities	22,540	4,666	1,615	25,591	10,703	14,888
Total business-type activities						
Long-term liabilities	\$ 22,910	\$ 4,666	\$ 1,790	\$ 25,786	\$10,763	\$ 15,023

- (1) The compensated absences liability attributable to the governmental activities will be liquidated by several of the governmental and internal service funds. The early retirement benefits payable will be liquidated by the general, state special revenue, and federal special revenue funds. The arbitrage rebate tax payable will be liquidated by debt service funds. The Employee Group Benefits and Administration Insurance internal service funds will liquidate the estimated insurance claims liability.
- (2) The OPEB plan allows retirees to participate, as a group, at a rate that does not cover all the related costs. This results in the reporting of an "implicit rate" subsidy in the related financial statements. While this liability is disclosed for financial purposes, it does not represent a legal liability of the State, or any of its component units.

Long-term liability activity of discretely presented component units for the year ended June 30, 2011, was as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due In More Than One Year
Discretely presented component units						
Bonds/notes payable						
Housing Authority	\$ 883,386	\$ 41,263	\$ 141,934	\$ 782,715	\$136,705	\$ 646,010
Montana State University (MSU)	114,070	94	5,136	109,028	5,514	103,514
University of Montana (UM)	129,336	49,256	54,245	124,347	6,197	118,150
Total bonds/notes payable (1)	1,126,792	90,613	201,315	1,016,090	148,416	867,674
Other liabilities						
Lease/installment purch pay	270	324	188	406	149	257
Compensated absences pay	55,240	23,527	24,631	54,136	24,418	29,718
Arbitrage rebate tax payable	809	67	31	845	518	327
Estimated insurance claims	896,759	166,246	123,581	939,424	119,175	820,249
Due to federal government	32,426	240	76	32,590	-	32,590
Derivative swap liability	3,798	82	-	3,880	-	3,880
Reinsurance funds withheld	64,201	10,344	16,657	57,888	-	57,888
OPEB implicit rate subsidy (2)	55,683	21,371	-	77,054	-	77,054
Total other liabilities	1,109,186	222,201	165,164	1,166,223	144,260	1,021,963
	\$2,235,978	\$312,814	\$366,479	\$2,182,313	\$292,676	\$1,889,637
Long-term liabilities of Montana University System component units					14	1,178
Total discretely presented component units					\$292,690	\$1,890,815
Long-term liabilities						

(1) When applicable, this amount includes deferred refunding costs, unamortized discounts, and unamortized premiums.

(2) The OPEB plan allows retirees to participate, as a group, at a rate that does not cover all the related costs. This results in the reporting of an "implicit rate" subsidy in the related financial statements. While this liability is disclosed for financial purposes, it does not represent a legal liability of the State, or any of its component units. OPEB is reported as a single line item on the financial statements.

F. Refunded and Early Retired Debt

Primary Government

Prepayments

The Department of Natural Resources and Conservation (DNRC) used current available resources to make the following payments which resulted in the bonds being paid in full: \$620,000 of general obligation Series 2003C; \$480,000 of special revenue Series 1997B; \$255,000 of special revenue Series 2001A.

Current Refundings

On September 16, 2010, the DNRC issued special revenue Series 2010A Bonds in the amount of \$10,180,000 to make an advanced refunding of \$11,065,000 of Series 2001D Bonds. The refunding resulted in an economic gain of \$1,375,936 and a difference in cash flow requirements of \$1,271,196.

Defeased Debt Outstanding

The State of Montana has defeased certain general obligation and special revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At June 30, 2011, \$67,125,000 of bonds outstanding was considered defeased.

Universities

Defeased Debt Outstanding

The University of Montana has defeased certain bond issues by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At June 30, 2011, \$86,307,315 of bonds outstanding were considered defeased for the University of Montana.

G. No-Commitment Debt

Information is presented below for financing authorities participating in debt issues. The State has no obligation for this debt. Accordingly, these bonds and notes are not reflected in the accompanying financial statements.

Primary Government

Montana Board of Investments (BOI)

Under the Economic Development Act, the BOI is authorized to issue stand-alone industrial revenue bonds to finance projects for qualifying borrowers. Assets and revenues of the borrower are pledged to repay the bonds. At June 30, 2011, industrial revenue bonds outstanding aggregated \$161 million.

The BOI is also authorized to issue Qualified Zone Academy Bonds (QZAB) under the Municipal Finance Consolidation Act. The revenues, and in some cases, the taxing power of the borrower are pledged to repay the bonds. At June 30, 2011, QZAB debt outstanding aggregated \$10.1 million.

The BOI is also authorized to issue Qualified School Construction Bonds (QSCB) under the Municipal Finance Consolidation Act. The revenues of the borrower are pledged to repay the bonds. At June 30, 2011, QSCB debt outstanding aggregated \$8.4 million.

The industrial revenue bonds, QZAB debt, and QSCB debt issued by the BOI does not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana.

Beginning Farm Loan Program

The Montana Department of Agriculture is authorized to request issuance of bonds by the BOI to finance projects for beginning farmers within the State, if it appears, after a properly noticed public hearing, that the project is in the public interest of the State. These non-recourse, industrial development revenue bonds do not constitute a debt, liability, or obligation of the State of Montana. The amount issued and outstanding at June 30, 2011, was as follows: Hershberger Project – issued \$129,412, outstanding \$92,988; Young Project – issued \$223,300, outstanding \$180,300.

Discretely Presented Component Units

Facility Finance Authority (FFA)

The FFA is authorized to issue bonds and notes to finance projects for qualifying health care and other community-based service providers. The revenue bonds are payable solely from loan repayments to be made by eligible facilities pursuant to loan agreements, and further, from the funds created by the indentures and investment earnings thereon. The notes are payable solely from loan repayments pursuant to loan agreements. The revenue bonds and notes payable issued by the FFA do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana, with the exception of the State Hospital Project included in section C. Long-term Debt of the State Debt footnote, Note 11. At June 30, 2011, revenue bonds outstanding aggregated \$1.087 billion, and notes payable outstanding aggregated \$22.2 million.

The BOI and the FFA have entered into a capital reserve account agreement for certain bond issues. See Note 16 C. (Miscellaneous Contingencies) for more information.

Housing Authority (HA)

HA is authorized to issue bonds and make mortgage loans in order to finance housing which will provide decent, safe, and sanitary housing for persons and families of lower income in the State of Montana. The bonds are special, limited obligations, payable solely from pledged revenues and assets, not general obligations of the HA. The bonds issued by the HA do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana. At June 30, 2011, bonds outstanding aggregated \$10,398,851.

H. Derivative Transactions Related to Long-term Debt

Montana State University (MSU) has two interest rate swaps as of June 30, 2011. Interest rate swaps are classified as hedging derivative instruments if the instruments meet the criteria of paragraph 27 (a) and (b) of Governmental Accounting Standards Board Statement Number 53, or as investment derivative instruments if they do not. The following table summarizes the interest rate swaps outstanding as of June 30, 2011:

Derivative Description	Trade Date	Effective Date	Termination Date	Counterparty
\$25.75 million fixed payer swap	3/10/2005	7/21/2005	11/15/2035*	Deutsche Bank AG*
\$25.25 million basis swap	12/19/2006	11/15/2007	11/15/2035	Morgan Stanley Capital Services Inc.

*Counterparty may opt out in 2016

As of June 30, 2011, the \$25.75 million fixed payer swap is classified as a hedging derivative instrument under Statement No. 53, whereas the \$25.25 million basis swap is an investment derivative instrument because there is no identified financial risk being hedged by the basis swap that can be expressed in terms of exposure to adverse changes in cash flows or fair values. Statement No. 53 includes four methods for evaluating hedge effectiveness; a governmental entity can use any of the evaluation methods outlined in the Statement and is not limited to using the same method from period to period. The four methods described in Statement No. 53 are: consistent critical terms, synthetic instrument, dollar-offset, and regression analysis. In addition, Statement No. 53 permits a governmental entity to use other quantitative methods that are based on “established principles of financial economic theory.” The fixed payer swap passes the established criteria using the regression analysis methodology.

The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps. The option value was estimated using a trinomial option pricing model. Incorporating market volatility data, the trinomial model calculates all possible changes in the value of the underlying swap for each future cash flow period (up, down or unchanged) to form a trinomial tree. The tree is used to calculate the current value of the option.

On September 10, 2010, the Series J bonds were converted to index bonds. While in index mode the interest rate is reset weekly at a rate of SIFMA plus a fixed spread. The spread is based on the long-term, unenhanced rating assigned to the issuer; the current spread is 0.80%. The dependent variable in the regression is the interest rates of the hedged cash flows; the independent variable is the floating rates due under the hedging derivative. The counterparty to the fixed payer swap has the right to terminate the swap at \$0 on December 14, 2016 (a European option). Upon entering into the transaction, the University received consideration from the counterparty in the form of an off-market (lower) fixed swap rate. A portion of the consideration received was a result of the option being in-the-money at inception; that is, the option had intrinsic value as the cancelable swap’s fixed rate of 3.953% was lower than the at-market rate of 4.110% on the trade date. The remainder of the up-front consideration reflects the time value the counterparty pays for holding the option. To the University, the time value portion represents deferred investment revenue. The intrinsic value of the cancelable swap is considered a loan receivable for financial reporting purposes and is treated as an asset in the accompanying financial statements. Interest accrues to the balance of the asset each year and amortizes with each swap payment.

The table below summarizes the reported balances as of, and the derivative instrument activity during, the year ended June 30, 2011.

Cash flow hedges:	Notional	Activity During 2011 – Increase (Decrease)		Fair Values at June 30, 2011—	
		Classification	Amount	Classification	Amount
Cash flow hedge –					
Pay fixed interest rate swap	\$ 24,150,000	Interest Expense	\$ 234,515	Loan receivable	<u>\$ 363,289</u>
		Investment Revenue	478,609	Hybrid instrument liability	1,076,413
		Deferred outflow	(975,297)	Noncurrent liability	<u>2,803,772</u>
				Total liability	<u>3,880,185</u>
Investment derivative –					
Basis swap	24,150,000	Investment income	121,395	Investment	<u>\$ 1,779,844</u>

The objective and terms of MSU's hedging derivative outstanding as of June 30, 2011 is as follows:

Type	Objective	Notional amount (000's)	Effective Date	Termination Date	Cash (Paid)/ Received (000's)	Terms
Pay fixed, cancelable interest rate swap	Hedge interest rate risk on Series J 2005 Bonds	\$24.150	3/10/2005	11/15/2035	-	Pay 3.953% Receive SIFMA

It is MSU's policy to enter into derivative agreements with highly rated counterparties. As of June 30, 2011, all interest rate swap counterparties are rated A or higher by Fitch or S&P, or A2 or higher by Moody's. MSU manages credit risk by requiring its counterparties to post collateral in certain events. MSU is entitled to collateral from its fixed payer swap counterparty if the interest rate swap's fair value is greater than \$5MM and the counterparty is rated A+ or A, by S&P, or A1 or A2 by Moody's. If the counterparty to the fixed payer swap is rated A- or below, by S&P, or A3 or below by Moody's, MSU is entitled to collateral up to 100% of the swap's fair value. MSU is not required to post collateral. MSU enters into derivative agreements with multiple counterparties to limit concentration of credit risk. Currently, MSU has interest rate swaps with two different counterparties and each counterparty accounts for approximately 50% of outstanding notional. MSU monitors counterparty credit risk on an ongoing basis.

Interest payments on variable rate debt will typically increase as interest rates increase. MSU believes it has significantly reduced interest rate risk by entering into a pay-fixed, receive floating interest rate swap. As interest rates increase, net swap payments decrease so that changes in hedged variable-rate debt interest payments, attributable to SIFMA, are largely offset by the net swap payments.

The variable-rate cash flows being hedged by the pay-fixed swap will increase or decrease as SIFMA rates increase or decrease. Because the hedged cash flows are SIFMA based and the floating receipts of the pay-fixed swap are SIFMA based, there is no basis risk.

MSU or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. In addition, MSU's fixed payer swap counterparty has the right to terminate the derivative if the credit rating of MSU's unenhanced long-term revenue bond rating is withdrawn, suspended or reduced below BBB-, in the case of S&P, or below Baa3 in the case of Moody's. If such an event occurs, the MSU could be forced to terminate the fixed payer swap in a liability position. As of June 30, 2011, MSU's unenhanced long-term revenue bond rating was Aa3 by Moody's.

MSU's hedging derivative includes a cancellation option which allows the counterparty to cancel the swap on 12/14/2016. Should the counterparty exercise its option, MSU would be exposed to rollover risk as exercise would only be likely in a rate environment higher than that at the time the trade was originally entered into.

All hedging derivatives are denominated in US Dollars and therefore MSU is not exposed to foreign currency risk.

Market access risk is the risk that MSU will not be able to enter credit markets or that credit will become more costly. For example, to complete a derivative instrument's objective, an issuance of refunding bonds may be planned in the future. If at that time MSU is unable to enter credit market, expected cost savings may not be realized.

I. Estimated Pollution Remediation Obligation

Estimated pollution remediation obligations are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The estimates were derived using the expected cash flows method as well as technical estimates from record of decisions, consent decrees and/or settlement agreements. Factors influencing the estimates are not known at this time. Prospective recoveries from other responsible parties may reduce the State's obligation.

The State's estimated pollution remediation liability as of July 1, 2010 was estimated at \$533.8 million. The liability as of June 30, 2011 was \$523.3 million. Of this liability, \$219.7 million resulted in settlement agreements to provide restoration of natural resources, water supplies and natural resource-based recreational opportunities up to the settlement amount; \$287.5 million is based on decrees or settlements for remediation activities. Other estimated liabilities have been recorded for soil and PCB contamination. The estimated pollution remediation liability was recorded in compliance with accounting and reporting standards and does not constitute Montana's total acceptance of the liability or responsibility on these matters.

NOTE 12. INTERFUND BALANCES AND TRANSFERS

A. Balances Due From/To Other Funds

Balances due from/to other funds arise when there is a time lag between the dates that reimbursable expenditures and interfund services provided/used are recorded in the accounting system, and the dates on which payments are made. Balances also arise when there is a time lag between the dates that transfers between funds are recorded, and the dates on which payments are made. Balances due from/to other funds also include the current portion of balances related to amounts loaned by the Economic Development Bonds Fund to other funds, under the Board of Investments INTERCAP loan program. Balances due from/to other funds are expected to be repaid within one year from the date of the financial statements.

Balances due from/to other funds at June 30, 2011, consisted of the following (in thousands):

	Due to Other Funds				
	Coal Severance Tax Permanent	Federal Special Revenue	General Fund	Internal Service Funds (3)	Nonmajor Enterprise Funds (4)
Due From Other Funds					
Economic Development Bonds	\$ -	\$ -	\$ -	\$ 868	\$ -
General Fund	4,273	-	-	-	11,818
Internal Service Funds	37	88	11	-	-
Land Grant Trust	-	-	-	-	-
Nonmajor Enterprise Funds	-	2	1	-	-
Nonmajor Governmental Funds	-	97	573	-	-
State Special Revenue	-	291	312	12	36
Total	\$4,310	\$478	\$897	\$880	\$11,854

	Due to Other Funds (cont)			
	Nonmajor Governmental Funds	State Special Revenue	Land Grant Trust	Total
Due From Other Funds (continued)				
Economic Development Bonds	\$ 5	\$ 2,026	\$ -	\$ 2,899
General Fund	-	34,728	-	50,819
Internal Service Funds	-	80	-	216
Land Grant Trust	-	(403)	403	0
Nonmajor Enterprise Funds	-	-	-	3
Nonmajor Governmental Funds (2)	1091	(62)	-	1,699
State Special Revenue (1)	881	-	23	1,555
Total	\$ 1,977	\$ 36,369	\$ 426	\$ 57,191

- (1) Total due from the state special revenue fund on the fund financial statement is reported as \$7,847,000. The difference of \$6,292,190 between the amount reported above of \$1,554,810 and the amount reported on the fund financial statement relates to long term receivables. The receivables were recorded in the fund financial statement and the long term liabilities were recorded in the entitywide statement.
- (2) Total due from the non-major governmental funds on the financial statements is reported as \$1,037,000. The difference of \$661,906 between the amount reported above of \$1,083,906 and the amount reported on the financial statements relates to long term receivables. The receivables were recorded in the fund financial statement and the long term liability were recorded in the entitywide statement.
- (3) Total due to the internal service funds on the fund financial statement is reported as \$1,858,308. The difference of \$978,840 between the amount reported above of \$879,468 and the amount reported on the fund financial statement relates to loans payable. The liabilities were recorded in the fund financial statement and the receivables were reported in the entitywide statement.
- (4) Total due to the nonmajor enterprise funds on the fund financial statement is reported as \$12,204,619. The difference of \$350,676 between the amount reported above of \$11,853,943 and the amount reported on the fund financial statement relates to loans payable. The liabilities were recorded in the fund financial and the receivables were reported in the entitywide statement.

B. Interfund Loans Receivable/Payable

Montana statutes include a provision for interfund loans when the expenditure of an appropriation is necessary and the cash balance in the account from which the appropriation was made is insufficient to pay the expenditure. Interfund loans receivable/payable are expected to be repaid within one year from the date of the financial statements.

Interfund loans receivable/payable at June 30, 2011, consisted of the following (in thousands):

	Interfund Loans Payable					
	Federal Special Revenue	Internal Service Funds	Nonmajor Enterprise Funds	State Special Revenue	Unemployment Insurance	Total
Interfund Loans Receivable						
General Fund	\$ 38,196	\$ -	\$ 25	\$ 7,739	\$ -	\$ 45,960
Federal Special Revenue	-	-	-	39	-	39
Internal Service Funds	355	-	-	-	-	355
Nonmajor Enterprise Funds	3	-	-	-	-	3
State Special Revenue	60,404	1,462	-	-	12	61,878
Total	\$ 98,958	\$ 1,462	\$ 25	\$ 7,778	\$ 12	\$ 108,235

C. Advances To/From Other Funds

Advances to/from other funds represent the portion of interfund loans that are not expected to be repaid within one year from the date of the financial statements. Advances to/from other funds also include the noncurrent portion of balances related to amounts loaned by the Economic Development Bonds Fund to other funds, under the Board of Investments INTERCAP loan program.

Advances to/from other funds at June 30, 2011, consisted of the following (in thousands):

	Advances from Other Funds				Total
	Federal Special Revenue	Internal Service Funds	Nonmajor Governmental Funds	State Special Revenue	
Advances to Other Funds					
Economic Development Bonds	\$ -	\$ 2,856	\$ 2,030	\$13,094	\$17,980
General Fund	1,250	-	-	-	1,250
Nonmajor Enterprise Funds	75	-	-	-	75
Nonmajor Governmental Funds	-	-	-	8,696	8,696
State Special Revenue	2,605	300	16,161	-	19,066
Total	\$ 3,930	\$ 3,156	\$18,191	\$21,790	\$47,067

Additional detail for certain advance balances at June 30, 2011, follows (in thousands):

Advances from the Economic Development Bonds Fund under the INTERCAP Loan Program	
Department	Balance
Natural Resources and Conservation	\$ 2,030
Environmental Quality	705
Justice	12,389
Transportation	2,856
Total	<u>\$17,980</u>

D. Interfund Transfers

Routine transfers between funds are recorded to (1) transfer revenues from the fund legally required to receive the revenue to the fund authorized to expend the revenue, (2) transfer resources from the General Fund and special revenue funds to debt service funds to support principal and interest payments, (3) transfer resources from enterprise funds to the General Fund to finance general government expenditures, and (4) provide operating subsidies.

Interfund transfers for the year ended June 30, 2011, consisted of the following (in thousands):

	Transfers In				
	Coal Severance Tax Permanent	Federal Special Revenue	General Fund	Internal Service Funds	Land Grant Permanent
Transfers Out					
Coal Severance Tax Permanent	\$ -	\$ -	\$26,783	\$ -	\$ -
Federal Special Revenue	-	-	50	-	-
General Fund	-	-	-	811	-
Internal Service Funds (1)	-	-	-	-	-
Land Grant Permanent	-	-	-	-	-
Nonmajor Enterprise Funds (2)	-	-	33,509	-	-
Nonmajor Governmental Funds	393	-	16,289	-	-
State Special Revenue	-	1,351	11,313	4,655	1
Unemployment Insurance	-	1,584	-	-	-
Total	\$393	\$2,935	\$87,944	\$5,466	\$1

	Transfers In (cont)			
	Nonmajor Enterprise Funds	Nonmajor Governmental Funds	State Special Revenue	Total
Transfers Out (cont.)				
Coal Severance Tax Permanent	\$ -	\$ 1,583	\$ 6,000	\$ 34,366
Federal Special Revenue	-	25,514	19,850	45,414
General Fund	51	37,491	39,157	77,510
Internal Service Funds (1)	-	305	-	305
Land Grant Permanent	-	579	75,105	75,684
Nonmajor Enterprise Funds (2)	-	-	4,554	38,063
Nonmajor Governmental Funds	-	9,032	21,641	47,355
State Special Revenue	3	19,282	-	36,605
Unemployment Insurance	-	-	-	1,584
Total	\$54	\$ 93,786	\$166,307	\$356,886

- (1) Total transfers-out for internal service funds on the financial statements is reported as \$2,247,564. The difference of \$1,943,064 between the amount reported above of \$304,500 and the amount reported on the financial statements relates to the movement of capital assets between a governmental fund type and the internal service fund type. When assets were transferred between these funds, the transferring fund recorded the net book value of the capital asset as a transfer-out, and the receiving fund type recorded the net book value of the capital asset as a capital contribution.
- (2) Total transfers-out for nonmajor enterprise funds on the financial statements is reported as \$39,053,317. The difference of \$989,901 between the amount reported above of \$38,063,416 and the amount reported on the financial statements relates to the movement of capital assets between a governmental fund type and the nonmajor enterprise fund type. When assets were transferred between these funds, the transferring fund recorded the net book value of the capital asset as a transfer-out, and the receiving fund type recorded the net book value of the capital asset as a capital contribution.

NOTE 13. FUND DEFICITS

The following funds have a deficit fund balance/net assets position at June 30, 2011, (in thousands):

Fund Type/Fund	Deficit
<u>Enterprise funds</u>	
Subsequent Injury	\$ (1,892)
<u>Internal service funds</u>	
Aircraft Operation	(121)
Justice Legal Services	(292)
Personnel Training	(12)

NOTE 14. MAJOR PURPOSE PRESENTATION

Fund Balances Classifications and Special Revenue by Purpose – The Governmental Accounting Standards Board, in Statement No. 54, requires presentation of governmental fund balances and special revenue fund revenues by specific purpose. In the basic financial statements, the fund balance classifications are presented in the aggregate. The tables presented below further display the fund balances by major purpose for the year ending June 30, 2011.

State Special Revenue By Source (in thousands)						
	General Government	Health and Human Services				Total
		Public Safety	Transportation	Human Services	Education	
Licenses/permits	\$ 57,536	\$ 26,781	\$ 19,894	\$ 1,743	\$ 170	\$ 61,272
Taxes	229,622	3,013	209,351	-	364	14,564
Charges for services	27,565	8,831	4,231	31,010	804	20,214
Investment earnings	431	13,093	228	902	782	18,044
Securities lending income	38	267	36	47	13	431
Sales of documents/merchandise/property	267	1,882	252	103	288	1,192
Rentals/leases/royalties	211	2	305	23	5	213
Contributions/premiums	20,692	-	-	-	-	-
Grants/contracts/ donations	1,783	676	645	7,531	3,174	5,016
Federal	11,304	68	-	9	-	44
Federal indirect recoveries	59	-	43,177	4	2	3,231
Other revenues	724	482	903	(308)	1	116
Transfers in	39,537	3,463	299	12,725	557	109,726
Total state special revenue	\$ 389,769	\$ 58,558	\$ 279,321	\$ 53,789	\$ 6,160	\$ 234,063
						\$ 1,021,660

Federal Special Revenue By Source (in thousands)						
	General Government	Health and Human Services				Total
		Public Safety	Transportation	Human Services	Education	
Charges for services	\$ 621	\$ -	\$ -	\$ 2,716	\$ 39,446	\$ 2
Investment earnings	193	5	-	-	97	-
Securities lending income	1	1	-	-	11	-
Sale of documents/merchandise/property	-	-	-	-	-	1
Grants/contracts/donations	-	-	-	-	-	263
Federal	156,151	11,798	481,190	1,222,453	290,883	130,151
Federal indirect cost recoveries	78	53	-	53,464	625	251
Other revenues	9	6	-	159	1	17
Transfers in	1,590	7	-	1,308	-	30
Total federal special revenue	\$ 158,643	\$ 11,870	\$ 481,190	\$ 1,280,100	\$ 331,063	\$ 130,715
						\$ 2,393,581

**Governmental Fund Balance By Function
June 30, 2011**

(in thousands)

	Special Revenue		Permanent			
	General	State	Federal	Severance Tax	Land Grant	Nonmajor
						Total
Fund balances						
Nonspendable						
Inventory	\$ 2,474	\$ 20,533	\$ -	\$ -	\$ -	\$ 23,007
Permanent fund principle	-	-	-	531,339	516,772	1,300,871
Long-term notes/receivables	65	-	-	-	-	65
Prepaid expense	352	902	-	-	-	1,254
Total nonspendable	2,891	21,435	-	531,339	516,772	1,325,197
Restricted						
General government	-	2,673	9,490	-	-	983
Transportation	-	116,353	-	-	-	116,353
Health and Human Services	-	17,104	661	-	-	4,260
Natural Resources	-	614,893	776	-	2,007	17,281
Public Safety	-	290,306	462	-	-	-
Education	-	5,226	23,689	-	-	139
Total restricted	-	1,046,555	35,078	-	2,007	22,663
Committed						
General government	-	168,655	-	380,234	-	39,403
Transportation	-	4,445	-	-	-	-
Health and Human Services	-	72,102	-	-	-	-
Natural Resources	-	275,246	-	-	-	37,221
Public Safety	-	14,675	-	-	-	718
Education	-	12,162	-	-	-	-
Total committed	-	547,285	-	380,234	-	77,342
Assigned						
General government	-	2,116	-	-	-	23,689
Natural Resources	-	41	-	-	-	-
Public Safety	-	-	-	-	-	1,853
Encumbrances	24,591	-	-	-	-	-
Total assigned	24,591	2,157	-	-	-	25,542
Unassigned						
Total assigned	341,875	(1,968)	-	-	-	(9)
Total fund balance	\$ 369,357	\$ 1,615,464	\$ 35,078	\$ 911,573	\$ 518,779	\$ 378,298
						\$ 3,828,549

NOTE 15. RELATED PARTY TRANSACTIONS

The Montana Board of Regents (Regents), an agency within the State, is the guarantor of loans owned by the Montana Education Student Assistance Corporation (MHESAC), a private non-profit. As of June 30, 2011 The Regents and MHESAC have only one common voting member. Approximately 77.59% of the Regents' outstanding loan volume, or \$1,363,123,448, is held by MHESAC.

The Regents, which governs Montana Guaranteed Student Loan Program (MGSLP), also has an agreement with Student Assistance Foundation of Montana (SAF) to share certain costs for the lease of computer equipment; computer and software maintenance costs; and personnel costs for employees of SAF who perform services that are of direct benefit to MGSLP. Certain SAF personnel are authorized to purchase computer equipment for use by both MGSLP and SAF. Costs for these purchases are covered under an agreement for services between the two entities. During fiscal year 2011, MGSLP's portion of shared costs reimbursed to SAF was \$414,854.

The Montana Association of Health Care Purchasers (MAHCP) has a member from the Department of Administration (DOA), Health Care and Benefits Division as well as a member from the Montana University System. Both serve on the board of MAHCP and receive no remuneration for their services. DOA pays this association \$1 per member per year to maintain its membership as well as a monthly fee of \$.70 per member. The monthly fees are payment for data analysis, actuarial analysis, and consulting services performed by association staff on behalf of member employers.

Office space for one of the regional public defender offices is provided at no charge to the office. The space is owned by the former deputy public defender for that region. The value of the office is estimated to be \$12,400 per year.

The Montana School for the Deaf and Blind is associated with a foundation, which is a nonprofit organization outside of state government. The school's foundation is governed by a board of directors that yearly approves a budget for the financial support to be provided to the school. This budget defines the allowable expense categories for the year. A school employee is the person approving the expenses to be paid by the foundation based on its budget. The employee submits the approved invoices to the foundation's bookkeeper, who then prepares the checks and submits them to a board member who reviews backup documentation and signs the checks.

Private nonprofit organizations with relations to The University of Montana (UM) include The UM Alumni Association, the Montana Technology Enterprise Center (MonTEC), the Montana Tech Booster Club and the Montana Tech Alumni Association.

The associations and booster club operate exclusively for the purpose of encouraging, promoting and supporting educational programs, research, scholarly pursuits and athletics at, or in connection with, UM. For the years ended June 30, 2011 and 2010, \$66,187 and \$ 77,189, respectively, was transferred from or expended by the Montana Tech Booster Club for scholarships and construction projects. In exchange, UM provides the associations and booster club with office space, staff and some related office expenses.

MonTEC was established as a nonprofit 501(C) 3 corporation in fiscal year 2001 as a result of an agreement between UM and the Missoula Area Economic Development Foundation (MAEDF). MonTEC provides low cost lease space and business consulting to local "start-up" companies. The corporation's board of directors is comprised equally of members appointed by MAEDF and UM.

UM contributed \$1.75 million in matching funds in conjunction with a grant awarded by U.S Economic Development Administration in fiscal year 2011. The total \$3.50 million from the matching funds and the grant will be used to undertake a renovation of MonTEC.

Private nonprofit organizations affiliated with Montana State University (MSU) include the MSU Foundation, the MSU-Billings Foundation, the MSU-Northern Foundation, the MSU-Bozeman Alumni Association, the MSU Bobcat Club, the MSU-Bozeman Bookstore, Friends of KUSM, Friends of KEMC and the Museum of the Rockies, Inc.

Friends of Montana Public Television provided \$779,897 during 2011 and \$767,519 during 2010 and Friends of KEMC Public Radio provided \$300,000 during 2011 and \$726,500 during 2010 in support of the MSU's television and radio stations.

NOTE 16. CONTINGENCIES

A. Litigation

The State is party to legal proceedings, which normally occur in government operations. The legal proceedings are not, in the opinion of the State's legal counsel and the Department of Administration, likely to have a material adverse impact on the State's financial position, except where listed below.

In State of Montana v. Philip Morris, Inc., No. CDV 97-306 (Mont. 1st Jud. Dist. Lewis & Clark County), the State of Montana filed various claims against six tobacco manufacturers seeking recovery of an unspecified amount of damages, penalties, and attorney's fees. The lawsuit was resolved eventually through two settlements. The State first settled its claims against one of the manufacturers, Liggett & Meyers, Inc., for \$1 million to be paid over a 20-year period. It next settled its claims against the remaining manufacturers in November 1998 for a base settlement amount of \$832 million payable over 26 years. The base amount was augmented by \$90 million in 1999, with the additional amount to be paid in equal installments over a 10-year period beginning in 2007.

The settlement provides that the cigarette manufacturers may offset against their payment in any year certain amounts of money if it is found that the original settling manufacturers (known as OPMs) have lost more than 2% of their market share to non-settling manufacturers (known as NPMs), and that the disadvantages imposed by the settlement were a "significant factor" in the market share loss. The settlement further provides that the offset, known as the "NPM adjustment" may not be taken against the payments to any state that has enacted a "qualifying statute" and diligently enforced the statute during the year in question. Montana enacted such a qualifying statute in 1999, Title 16, Chapter 11, Parts 401 – 404, MCA.

In March 2006, a determination was made pursuant to the settlement that the OPMs had lost sufficient market share in 2003 to trigger an NPM adjustment analysis, and that disadvantages caused by the settlement were a significant factor in the market share loss. Similar findings have been made or agreed to for years 2004 through 2006. The State has filed a motion in the lawsuit seeking a declaration that it diligently enforced its qualifying statute during 2003. The OPMs moved to compel arbitration of the question, and the Montana Supreme Court has rejected the OPMs motion. In the opinion of the counsel, good factual arguments exist to show that the State diligently enforced its statute during the year in question. However, legal and procedural uncertainties exist that make an adverse determination reasonably possible. An adverse determination on the diligent enforcement issue could result in the loss of some or all of the State's payments for years 2003 through 2006, which would be recouped through an offset of payments due in future years. At present, the NPM case involves roughly \$1.8 million that was withheld from the April 2006 payment to the State. The OPMs have asserted claims for NPM adjustments for later years as well. The outcome of these claims is also uncertain.

This settlement has also formed the basis for other lawsuits against the State. On July 1, 2002, a group of cigarette manufacturers and marketers filed suit against the Attorneys General of 31 states, including Montana, in the United States District Court for the Southern District of New York, seeking a declaration that the provisions of Title 16, Chapter 11, Part 4, MCA, violate several provisions of the United States Constitution, and seeking injunctive relief against the enforcement of the statutes. Grand River Enterprises Six Nations, Ltd., v. Pryor et al., Docket No. 02 CV 5068 (U.S. Dist. Ct., S.D.N.Y.). An adverse outcome could threaten the ability of the State to continue to receive payments from the tobacco companies under the settlement of the Mazurek case. The potential loss to the Treasury could amount to \$30-35 million annually. The federal district court had dismissed the complaint, but the United States Court of Appeals for the Second Circuit has reversed the trial court and remanded one of the claims for further proceedings. The United States Supreme Court has denied review, and the case has been remanded for further proceedings. In the opinion of counsel, good defenses exist to the claims, and an adverse result impairing or preventing receipt of the State's payment is possible, but unlikely.

PPL v. Montana involves ownership of sections of riverbed on the Missouri, Clark Fork and Madison rivers. The case originated in 2003, when a group of parents of school age children sued PPL in Federal Court alleging that the company must pay rent for the use of state owned riverbeds to generate hydroelectric power. After the Federal Court dismissed the case for lack of jurisdiction, PPL filed an action in state district court seeking a declaration that the state could not charge them rent for use of the riverbeds at issue. The state intervened in the case and counterclaimed for a declaration that PPL and its co-plaintiffs unlawfully occupied state lands and must compensate the State land trust on behalf of its public beneficiaries for the use of those lands. The legal test for ownership of the riverbeds is whether the rivers at issue were navigable at the time of statehood. Based upon the historical record, the District Court granted the State summary judgment on the question of

navigability and the case proceeded to trial on the issue of compensation for use of trust lands. In June of 2008 the Court issued its ruling and ordered that PPL owed the state almost \$41 million for past use of the riverbeds.

PPL appealed the decision to the Montana Supreme Court. The case was briefed and argued before the court, and in March of 2010, the Montana Supreme Court issued a decision upholding the district court's finding of navigability and determination of compensation.

PPL appealed the case to the United State Supreme Court and in June of 2011 the Court agreed to hear the case. Although the United States Solicitor General originally joined Montana in urging the Court to reject PPL's petition for cert, the Solicitor General joined PPL at the merits stage and has argued that the Montana Supreme Court applied the wrong standard for navigability and the record does not support a finding of navigability at statehood. In addition to other amicus curiae filings, Montana is joined in its argument by 26 other states. The U.S. Supreme Court overturned the Montana Supreme Court in February of 2012. The U.S. Supreme Court decision will require Montana courts to examine whether stretches of the Missouri, Madison and Clark Fork rivers are navigable, according to the standards defined by the high court.

Spoklie v. Montana Department of Fish, Wildlife and Parks, Sheridan County Docket No. 11013, is the final pending case challenging the constitutionality of Initiative Measure 143, which banned the issuance of new licenses for game farms in Montana, prohibited the transfer of existing licenses, and prohibited game farm licenses from allowing the shooting of game farm animals on a game farm for a fee or other remuneration. The State moved for summary judgment and that motion is still pending. In the opinion of counsel, good defenses exist to all claims, and the possibility of an outcome adverse to the state is very remote.

Spoklie is the last in a long line of case that were filed after passage of I-143. The following cases have been concluded in favor of the state: Kafka v. Montana Department of Fish Wildlife, and Parks, Hill County Docket No. DV-02-059, Buhmann et al. v. State of Montana et al., Lewis and Clark Docket No. DV-2002-555, Royal Tine Ranch v. State, Flathead County Docket No. DV-02-606C, and Mesaros v. Department of Fish, Wildlife and Parks, Cascade County Docket No. BDV 03-0119. Wallace v. State of Montana, Ravalli County Docket No. 02-254, and Bowman v. Montana Fish, Wildlife and Parks, Fergus County Docket No. DV-2002-02, were previously dismissed without prejudice and have not been refilled.

In Terry Blanton v. DPHHS, filed in Montana Twentieth Judicial District Court, Lake County, Cause No. DV-06-37, a class-action lawsuit was filed on the part of plaintiffs who seek to "force DPHHS to obey federal Medicaid and anti-lien laws and the state 'made whole' doctrine." The lawsuit seeks payment from DPHHS of money allegedly wrongfully collected from third-party settlements or recoveries of Medicaid recipients. The lawsuit also seeks interest, costs, attorney fees, and declaratory and injunctive relief. On September 5, 2007, the court issued an order granting class certification. There is currently no trial date and no pretrial schedule.

In 2009 both plaintiffs and defendant DPHHS filed motions for summary judgment. The court granted partial summary judgment to plaintiffs on certain issues, primarily liability issues. In the fall of 2009 defendant DPHHS submitted a report to the court concerning each Medicaid reimbursement file of each class member with a breakdown of how third party awards were apportioned. DPHHS also requested Rule 54(b) certification on four orders of the district court resolving various liability issues in plaintiffs' favor, for the purpose of appealing to the Montana Supreme Court. On April 20, 2010, the district court granted Rule 54(b) certification on the four orders it had issued affecting liability issues. Following briefing the Montana Supreme Court issued a decision on May 24, 2011, upholding several of the district court's rulings, reversing several rulings, and remanding the case to the district court for further proceedings. The Supreme Court's decision provided clarification regarding a number of issues, and the litigation is proceeding in the district court.

At this time, counsel for DPHHS does not believe it is possible to make a reasonable assessment of the likelihood of plaintiffs' success on the merits. In addition, the fiscal impact on the State, should the plaintiffs prevail, and the amount of any potential award of attorney fees and costs, is not determinable at this time.

Coles, Individually and as Personal Representative for the Estate of Steven Bearcrane v. Black Ranches, Inc., Crow Tribal Court No. CAV 07-044, is a tort case filed against a policy holder of Montana State Fund. The case involves a wrongful death claim by the estate of an employee of the policyholder. Montana State Fund is providing a defense under a complete reservation of rights to the policy holder under Part Two of the State Fund's insurance policy, also known as employers' liability coverage. The policy limits in this case are \$1,000,000. The exclusive remedy provisions of MCA Section 39-71-411 should bar this type of tort claim against the policy holder. However, if the plaintiffs are successful in convincing the court

that MCA Section 39-71-411 does not provide a defense, and that the employer-policyholder was at fault in causing the death of its employee, the damages may be substantial. The case was dismissed at the Crow Tribal Court level on the grounds that the tribal court did not have jurisdiction, and was then appealed to the Crow Tribal Appellate Court. The Crow Tribal Court dismissed the appeal. There is a possibility of further legal action in this case. The actual potential cost impact to the State Fund is not known at this time. Liability for Montana State Fund, up to its policy limits (\$1,000,000), is reasonably possible.

Victory Insurance Company, Inc. v. Montana State Fund et al. Victory filed its Amended Complaint in this action on March 29, 2011, in which it asserts various tort claims against Montana State Fund. No specific amounts of damages were stated in the complaint. Pre-trial discovery is ongoing at this time. The actual potential cost impact to the State Fund is not known at this time. Montana State Fund does not have sufficient information to determine potential liability or cost impact.

Montana State Fund has been notified of threatened litigation against a State Fund policyholder that may be covered by the employer's liability coverage of the State Fund's insurance policy. State Fund has an accepted workers' compensation claim based on the injury incurred in this case. The exclusive remedy provisions of MCA Section 39-71-411 should bar this type of tort claim against the policy holder. However, if the plaintiffs are successful in convincing the court that MCA Section 39-71-411 does not provide a defense, then the employer-policyholder may be legally responsible for causing the injuries to its employee. It is reasonably possible that Montana State Fund may be called upon to indemnify the employer-policyholder, up to the policy limits of \$1,000,000. The actual potential cost impact to the State Fund is not known at this time.

In October 2008 a lawsuit, Diaz et al. v. Blue Cross and Blue Shield of Montana et al., was filed in the Montana First Judicial District Court, Lewis and Clark County, Cause No. BVD-2008-956, by plaintiffs Jeanette Diaz, Leah Hoffman-Bernhardt, Rachel Laudon, individually and on behalf of others similarly situated, naming Blue Cross and Blue Shield of Montana (BCBS), New West Health Services (New West), Montana Comprehensive Health Association, State of Montana (State) as defendants. The complaint alleges that the defendants have violated the made whole laws of Montana and illegally given themselves subrogation rights.

On June 12, 2009, Plaintiffs filed with the District Court a motion for class certification. The District Court judge denied Plaintiffs' motion for class certification on December 16, 2009. The Plaintiffs appealed this decision to the Montana Supreme Court. As part of review of the underlying decision denying class certification, the Montana Supreme Court remanded the case to the District Court to determine the question of whether the made-whole laws codified in §§ 2-18-902 and 33-30-1102, MCA, apply to the various types of third-party administrators (TPAs) at issue in Diaz. The District Court held that these laws do not apply to the TPAs. Plaintiffs appealed this decision.

On December 21, 2011 the Supreme Court issued its decision, holding that the District Court abused its discretion in denying a class action and that BCBS and New West, as TPAs of the State's health plan, are not subject to the made-whole laws as "insurers" under §§ 2-18-901 to-902, MCA, or under a third party beneficiary theory.

Given the Montana Supreme Court's approval of a class action in Diaz, the potential exposure for damages against the State increases, should it ultimately be determined that the State has violated the applicable made-whole laws. A September 2009 Montana Supreme Court opinion addressed certain exclusions included in BCBS insurance forms. In that case, the Supreme Court found that the exclusions at issue violated the made-whole laws applicable to insurance companies. This decision could adversely affect the State's position in Diaz. At this time, however, it is difficult to predict an outcome and monetary effect to the State because certain facts in Diaz distinguish it from the 2009 Supreme Court ruling in the case involving BCBS. The State's health plan is different from the forms in the BCBS case because, among other distinctions, the State's health plan is self-funded, and State employees do not pay any premiums for their health benefits provided to them. These payments are made by the State.

A complaint was filed in July 2009, SBC Archway III, LLC v. State of Montana in Montana First Judicial District Court, Lewis and Clark County, Cause No. BDV 1109-688, arising from the State's termination of three, 30-year "build to suit" leases with the developer following the 2009 legislature's rejection of funding for the leases in the 2010-11 biennium. The developer purchased the property and prepared architectural plans for the building, but had not yet begun construction of the building at the time the leases were terminated. The developer is seeking damages in the amount of \$3,979,680 (plus ongoing expenses) for claimed costs and expenses (including the \$1.9 million cost to purchase the property), plus lost profits of \$9,878,421. Discovery has been completed and the case is set for trial early in 2012. In the opinion of counsel, the State has numerous strong legal defenses to the suit, including the contractual right to terminate in the event of a reduction of funds for

the purposes of the leases and the 2009 legislature's rejection of funding for the leases. The State furthermore does not believe the developer can show lost profits under the leases.

B. Federal Contingencies

Food Distribution Program - The amount reported for Food Distribution programs (CFDA #10.550, #10.567, #10.569, #10.570 and #10.565 and #93.053) represents the dollar value of food commodities distributed to eligible recipients during the year. The U.S. Department of Agriculture provides the current value of the commodities used by the state to compute the amount reported. The amount of funds received to administer the program is also included in the reported amount. Montana also distributes food commodities to other states in the western region of the United States, the value of which is excluded from the reported amounts. During fiscal year 2011, Montana distributed \$363,224 of food commodities under CFDA #10.567 to other states.

The state of Montana distributed \$8,394,712 in commodities in fiscal year 2011. The value at June 30, 2011 of commodities stored at the state's warehouse is \$2,292,412 for which the state is liable in the event of loss. The state has insurance to cover this liability.

C. Miscellaneous Contingencies

Loan Enhancements – As of June 30, 2011, the Board of Investments (BOI) had provided loan enhancements from the Coal Severance Tax Permanent Trust Fund to the Municipal Finance Consolidation Act Bond Fund and the Facility Finance Authority, (a component unit of the State of Montana), totaling \$226,374,677. The BOI's exposure to bond issues of the Municipal Finance Consolidation Act Bond Fund was \$95,725,000, while exposure to bond issues, surety bonds and designated loans of the Facility Finance Authority was \$130,349,677.

Gain Contingencies - Certain natural resource and corporation tax assessments are not reported on the State's financial statements because they are being protested administratively. As of June 30, 2011 the following assessments (by fund type) were outstanding (in thousands):

	Taxes	General	State Special Revenue
Corporation Tax		\$16,730	\$ -
Oil and Gas Production Tax		485	119
Total		<u>\$17,215</u>	<u>\$119</u>

Collectability of these contingencies is dependent upon the decisions of the court, other authorities, or agreed upon settlements. The corporation tax assessments include material estimates that could result in a significant reduction of the tax assessed once actual numbers are provided. Interest related to corporation tax assessments is distributed to the General Fund and is included in the assessment total above.

The oil and gas production tax noted above represents the state portion of the total protested amount of \$1,044,333.

Loss Contingencies – Certain corporations have requested refunds that are not reported on the State's financial statements as of June 30, 2011. The corporations have appealed the department's decision to deny or adjust the refund. As of June 30, 2011, these include \$1,279,129 of General Fund corporation tax refunds.

Certain companies have protested property taxes that have been included as revenue on the State's financial statements as of June 30, 2011. As of June 30, 2011, these include \$4,454,658 of protested property taxes recorded in the General Fund and \$5,056,235 recorded in State Special Revenue Funds.

NOTE 17. SUBSEQUENT EVENTS

Bond/Loan Issues

The Montana Facility Finance Authority closed 6 bond issues subsequent to June 30, 2011. On July 15, 2011 \$4,950,000 of bonds were issued for Sapphire Lutheran Homes to refinance existing debt with approximately \$420,000 used for remodeling. On August 3, \$4,174,486 of bonds were issued for Kalispell Regional Medical Center to purchase equipment. On August 24, \$140,000,000 of bonds were issued for Billings Clinic with \$30 million for capital projects and the remainder used to refinance existing debt. On August 30, two bonds were issued; one for \$10 million for Missions United to refinance existing debt, and a bond issue of \$4,500,000 for St. John's Lutheran Ministries with approximately \$1.8 million to be used for remodeling and capital improvements with the remainder to refinance existing debt. On September 28, 2011 \$20,700,000 of bonds were issued for Bozeman Deaconess Health Services to construct and equip a new and expanded emergency department. On January 31, 2012, \$25 million of bonds were issued for North Valley Hospital located in Whitefish to refinance existing debt.

On July 15, 2011, the Board of Housing (BOH) approved \$3,000,000 for a set-aside loan program to assist Montana flood victims finance repairs to flood damaged homes located in the 31 Montana Counties designated as federal disaster areas.

On August 5, 2011, Standard & Poor's Ratings Services lowered its long-term sovereign credit rating on the United States to 'AA+' from 'AAA,' and assigned a negative outlook. On August 2, 2011, Moody's Investors Service confirmed the 'Aaa' government bond rating of the United States, but assigned a negative outlook.

On November 17, 2011, BOH issued \$58,175,000 of Single Family Homeownership Bonds Series 2011 B / 2009 C. The Bonds will mature on June 1, 2012, through December 1, 2041, with interest rates from 2.47% to 5.00%. Bond proceeds of \$20,000,000 were used to purchase single family mortgage loans for BOH's Homeownership Program. Bond proceeds of \$38,175,000 were used to refund existing bond issues.

On December 9, 2011, the Board elected to continue to participate in the U.S. Treasury New Issue Bond Program (NIBP) of the Housing Finance Agency Initiative. Originally, the program was to expire on December 31, 2011, and any remaining 2009 Series A bonds from the original program funding not converted to NIBP mortgage revenue bonds were to be redeemed by December 31, 2011. However, on November 17, 2011, the U.S. Department of Treasury extended the NIBP conversion period to December 31, 2012 which extends the period these funds are available to the Board by one calendar year. As of December 31, 2011, the Board had \$105,400,000 of NIBP Program funds remaining.

General Obligation Long-Range Building Program Refunding Bonds, Series 2011D, were issued July 19, 2011 for \$5,755,000 to be used for the purpose of refunding the General Obligation Long-Range Building Program Bonds, Series 2002B, with stated maturities in 2014 and thereafter.

In September 2011, the Montana Board of Regents authorized Montana State University-Bozeman to issue up to \$16 million in fixed rate bonds, the proceeds of which will be used to construct a suite-style residence hall and construct improvements to existing residence halls on the Bozeman campus. In November 2011, \$14.1 million par value bonds were issued a fixed interest rate at a total interest cost of 3.84%. The bonds will be repaid over a period of 15 years, from revenues pledged to the repayment of debt pursuant to the University's bond indenture.

In spring 2011, the Montana State University - Bozeman campus commenced an addition to its football stadium. Construction was completed in summer 2011, and included new seating, concessions areas, restroom facilities and a locker room. The total project cost was \$10 million, \$4 million of which was funded by the University through the State's Interap Loan Program, and \$6 million of which was funded with donations through the MSU Foundation. As of June 30, 2011, the University had borrowed \$2,179,354, and subsequent to year-end drew an additional \$1,820,646 to complete the \$4 million University portion of the project. The final draw amount for the loan was made in August 2011.

The Department of Natural Resources & Conservation issued Revenue Anticipation Notes (RANs) on October 21, 2011, Series 2011B for \$1,100,000 in the Drinking Water State Revolving Fund (DWSRF) program and Series 2011C for \$1,900,000 in the Water Pollution Control State Revolving Fund (WPCSRF) program. These Taxable RANs are to match EPA Capitalization Grant funds.

Investment Related Issues

From July 1, 2011 through March 16, 2012, AFF Financing LLC payments total \$5,442,986 representing \$5,340,232 in principal and \$102,754 in interest. For the same period, the Board received payments associated with the Orion Finance collective holding of \$2,821,21 with \$2,352,745 and \$468,472 applied to principal and interest, respectively. On October 4, 2011, the Board received a partial refund from the Axon SIV Holdback/Reserve of \$11,128.

Because Lehman reached an agreement on their bankruptcy, BOI sold the \$5 million AOF position in Lehman Brothers Holdings, Inc. 5% rate, January 14, 2011 maturity at a price of \$26 on December 6, 2011. Because the bonds were previously written down to a price of \$20, this sale generated a gain of \$322,300.

Other Subsequent Events

On September 8, 2011, the First District Court in Billings approved a settlement of Libby Mine Claims in the amount of \$43 million. The settlement resolved claims asserted in 210 lawsuits including 1,178 claims of alleged asbestos related disease and 205 consortium claims. The state advanced \$26.8 million and NIC, a state insurer, advanced \$16.1 million.

In November 2011, the Montana Board of Regents approved the design of a new instructional building to house the college of business on the Bozeman campus, which is expected to be funded entirely by a \$25 million gift which was pledged in October 2011.

On February 23, 2012 the U.S. Supreme Court struck down the Montana court decision that said PPL Montana owes the state rent for operating hydroelectric dams on state-owned riverbeds. The decision was sent back to Montana courts for further examination. The \$40.96 million in accounts receivable reported in the Public Land Grant Permanent Fund may need to be reduced but the amount of reduction has not yet been determined.

On February 29, 2012, the Department of Environmental Quality received \$1.06 million from ExxonMobil for the Silvertip Pipeline Oil Spill. This included a \$300,000 penalty payment and cost recovery for all costs incurred by the six state agencies before January 1, 2011.

NOTE 18. MATERIAL VIOLATIONS OF FINANCE-RELATED LEGAL PROVISIONS

Constitutionality of Retirement Plan Funding

The Montana Constitution, Article VIII, Section 15 states that public retirement systems shall be funded on an actuarially sound basis. As of June 30, 2011, the Public Employees Retirement System-Defined Benefit Retirement Plan (PERS-DBRP), Sheriffs Retirement System (SRS), Game Warden & Peace Officers Retirement System (GWPORS), Highway Patrol Officers' Retirement System (HPORS) and Teachers Retirement System (TRS) were not in compliance. Detailed information for the retirement plan can be found in Note 6.

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BUDGETARY COMPARISON SCHEDULE
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(amounts expressed in thousands)

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES				
Licenses/permits	\$ 107,668	\$ 107,668	\$ 118,749	\$ 11,081
Taxes:				
Natural resource	97,797	97,797	136,550	38,753
Individual income	852,746	852,746	798,590	(54,156)
Corporate income	121,371	121,371	120,240	(1,131)
Property	233,518	233,518	227,085	(6,433)
Fuel	-	-	-	-
Other	191,681	191,681	206,699	15,018
Charges for services/fines/forfeits/settlements	39,393	39,393	43,616	4,223
Investment earnings	-	-	3,907	3,907
Sale of documents/merchandise/property	1,558	1,558	329	(1,229)
Rentals/leases/royalties	2	2	20	18
Contributions/premiums	-	-	(7)	(7)
Grants/contracts/donations	3,780	3,780	4,313	533
Federal	31,798	31,798	34,039	2,241
Federal indirect cost recoveries	157	157	208	51
Other revenues	60	60	327	267
Total revenues	1,681,529	1,681,529	1,694,665	13,136
EXPENDITURES				
Current:				
General government	268,101	268,101	248,681	19,420
Public safety	263,368	263,368	253,553	9,815
Transportation	2,209	2,209	358	1,851
Health and human services	388,293	388,293	342,080	46,213
Education	610,324	610,324	781,841	(171,517)
Natural resources	32,192	32,192	29,471	2,721
Debt service:				
Principal retirement	977	977	710	267
Interest/fiscal charges	-	-	67	(67)
Capital outlay (Note RS-1)	5,759	5,759	1,247	4,512
Total expenditures	1,571,223	1,571,223	1,658,008	(86,785)
Excess of revenue over (under) expenditures	110,306	110,306	36,657	73,649
OTHER FINANCING SOURCES (USES)				
Insurance proceeds	2,230	2,230	-	(2,230)
General capital asset sale proceeds	(24)	(24)	131	155
Refunding bond issued	-	-	-	-
Payment to refunding bond escrow agent	-	-	-	-
Bond premium	-	-	-	-
Bond proceeds	-	-	-	-
Transfers in (Note 12)	73,622	73,622	87,944	14,322
Transfers out (Note 12)	(290,097)	(290,097)	(77,510)	212,587
Total other financing sources (uses)	(214,269)	(214,269)	10,565	224,834
Net change in fund balances			-	
(Budgetary basis)	(103,963)	(103,963)	47,222	298,483
RECONCILIATION OF BUDGETARY/GAAP REPORTING				
1. Securities lending income	-	-	379	379
2. Securities lending costs	-	-	(81)	(81)
3. Inception of lease/installment contract	-	-	19	19
4. Adjustments for nonbudgeted activity	-	-	-	-
Net change in fund balances			-	
(GAAP basis)	(103,963)	(103,963)	47,539	298,800
Fund balance - July 1	-	-	327,006	327,006
Prior period adjustments	-	-	(6,740)	(6,740)
Increase (decrease) in inventories	-	-	1,552	1,552
Fund balances - June 30	\$ (103,963)	\$ (103,963)	\$ 369,357	\$ 620,618

The notes to the required supplementary information are an integral part of this schedule.

STATE SPECIAL REVENUE FUND				FEDERAL SPECIAL REVENUE FUND			
ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
\$ 185,594	\$ 185,594	\$ 167,396	\$ (18,198)	\$ -	\$ -	\$ -	\$ -
133,122	133,122	130,169	(2,953)	-	-	-	-
-	-	-	-	-	-	-	-
10	10	2	(8)	-	-	-	-
15,115	15,115	14,876	(239)	-	-	-	-
195,781	195,781	209,348	13,567	-	-	-	-
102,119	102,119	102,519	400	-	-	-	-
96,720	96,720	92,655	(4,065)	42,178	42,178	42,785	607
-	-	33,480	33,480	-	-	295	295
3,983	3,983	3,984	1	-	-	1	1
398	398	759	361	-	-	-	-
22,157	22,157	20,692	(1,465)	-	-	-	-
14,555	14,555	18,825	4,270	394	394	263	(131)
11,130	11,130	11,425	295	2,443,378	2,443,378	2,292,626	(150,752)
70,656	70,656	46,473	(24,183)	168,817	168,817	54,471	(114,346)
100	100	1,918	1,818	-	-	192	192
851,440	851,440	854,521	3,081	2,654,767	2,654,767	2,390,633	(264,134)
331,823	331,823	257,214	74,609	195,797	195,797	135,730	60,067
66,634	66,634	78,156	(11,522)	30,693	30,693	14,961	15,732
304,953	304,953	180,713	124,240	494,013	494,013	90,316	403,697
157,229	157,229	133,118	24,111	1,550,616	1,550,616	1,280,277	270,339
49,864	49,864	85,933	(36,069)	357,847	357,847	340,748	17,099
251,228	251,228	160,635	90,593	163,704	163,704	79,169	84,535
3,791	3,791	666	3,125	719	719	113	606
-	-	847	(847)	-	-	12	(12)
108,863	108,863	105,586	3,277	153,636	153,636	406,970	(253,334)
1,274,385	1,274,385	1,002,868	271,517	2,947,025	2,947,025	2,348,296	598,729
(422,945)	(422,945)	(148,347)	(274,598)	(292,258)	(292,258)	42,337	(334,595)
7,128	7,128	4,326	(2,802)	14	14	-	(14)
268	268	887	619	-	-	-	-
10,180	10,180	10,180	-	-	-	-	-
-	-	(10,700)	(10,700)	-	-	-	-
-	-	767	767	-	-	-	-
31,142	31,142	30,450	(692)	-	-	-	-
217,361	217,361	166,307	(51,054)	11,199	11,199	2,935	(8,264)
(93,648)	(93,648)	(36,605)	57,043	(115,487)	(115,487)	(45,414)	70,073
172,431	172,431	165,612	(6,819)	(104,274)	(104,274)	(42,479)	61,795
(250,514)	(250,514)	17,265	(281,417)	(396,532)	(396,532)	(142)	(272,800)
-	-	-	-	-	-	-	-
-	-	832	832	-	-	13	13
-	-	(194)	(194)	-	-	(3)	(3)
-	-	17	17	-	-	-	-
-	-	-	-	-	-	-	-
(250,514)	(250,514)	17,920	(280,762)	(396,532)	(396,532)	(132)	(272,790)
-	-	1,534,855	1,534,855	-	-	32,114	32,114
-	-	60,232	60,232	-	-	3,096	3,096
-	-	2,457	2,457	-	-	-	-
\$ (250,514)	\$ (250,514)	\$ 1,615,464	\$ 1,316,782	\$ (396,532)	\$ (396,532)	\$ 35,078	\$ (237,580)

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI-1. BUDGETARY REPORTING

A. State Budget Process

The Montana Legislature meets in the odd-numbered years to prepare annual budgets for the next biennium. The constitution requires that legislative appropriations not exceed available revenues. The Legislature uses revenue estimates in the budgetary process to establish appropriation levels. Expenditures may not legally exceed budget appropriations at the fund level. In addition, the State Constitution prohibits borrowing to cover deficits incurred because appropriations exceeded anticipated revenues. State law requires an appropriation for disbursements from the general, special revenue and capital projects funds, except for those special revenue funds from non-state and non-federal sources restricted by law or by the terms of an agreement. The level of budgetary control is established by fund type, except capital project funds, which are at project level. Budgets may be established in other funds for administrative purposes.

Agency budget requests are submitted to the Governor, and the Legislative Fiscal Division receives a copy. The Office of Budget and Program Planning (OBPP) and the Governor analyze the requests, establish priorities, and develop the requests into the executive budget request submitted to the Legislature. Joint appropriations subcommittee hearings are held, and an omnibus appropriation bill is reported in the House and subsequently sent to the Senate. The Legislature generally enacts one bill to establish the majority of appropriations for the next two fiscal years. OBPP establishes appropriations for each program by accounting entity (fund) within an agency. The Legislature enacts other appropriations, but only within the available revenue. Agencies must prepare and submit to the budget director operational plans showing the allocation of operating budgets by expenditure category (i.e., personal services, operating expenses, equipment, etc.). The budget director or other statutorily designated approving authority may authorize changes among expenditure categories and transfers between program appropriations.

Appropriations may not be increased by amendment in the General Fund. However, a department, institution, or agency of the executive branch desiring authorization to make expenditures from the General Fund during the first fiscal year of the biennium from appropriations for the second fiscal year of the biennium may apply for authorization from the Governor through the budget director. In the second year of the biennium, during the legislative session, the Legislature may authorize supplemental appropriations. The Governor, or designee, may approve budget amendments for non-general fund monies not available for consideration by the Legislature and for emergencies. In the accompanying financial schedule, original and final budget amounts are reported. There were no expenditures in excess of total authorized appropriations in the State's budgeted funds for the fiscal year.

Appropriations may be continued into the next fiscal year when authorized by the Legislature or the Governor's office. After fiscal year-end, appropriations that are not continued are reverted. The reverted appropriations remain available for one fiscal year for expenditures that exceed the amount accrued or encumbered. Fund balances are not reserved for reverted appropriations. For fiscal year 2011, reverted governmental fund appropriations were as follows: General Fund - \$155.3 million, State Special Revenue Fund - \$217.8 million, and Federal Special Revenue Fund - \$395.1 million. Agencies are allowed to carry forward 30% of their reverted operating appropriations into the next two fiscal years. This amount can be used for new expenditures at the request of the agency and upon approval of OBPP.

Appropriations for capital projects funds are not made on an annual basis, but are adopted on a project-length basis. Because these non-operating budgets primarily serve a management control purpose, and related appropriations are continuing in nature, no comparison between budgeted and actual amounts for funds budgeted on this basis is provided.

B. Budget Basis

The Legislature's legal authorization ("appropriations") to incur obligations is enacted on a basis inconsistent with GAAP. The budget basis differs from GAAP for encumbrances outstanding at fiscal year-end; compensated absences, fixed assets and inventories purchased in proprietary funds; certain loans from governmental funds; and other miscellaneous nonbudgeted activity (e.g., bad-debt write-offs, etc.).

REQUIRED SUPPLEMENTARY INFORMATION
PENSION PLAN INFORMATION

Pension Plan Information Schedule of Funding Progress (in thousands)						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
Single Employer System						
JRS						
6/30/2009	61,929	41,848	(20,081)	148%	5,110	(393%)
6/30/2010	61,277	42,513	(18,764)	144%	5,687	(330%)
6/30/2011	61,274	43,414	(17,860)	141%	5,645	(316%)
HPORS						
6/30/2009	99,652	137,815	38,163	72%	11,425	334%
6/30/2010	97,204	151,177	53,973	64%	13,036	414%
6/30/2011	95,274	155,742	60,468	61%	12,472	485%
Multiple Employer Systems						
PERS-DBRP						
6/30/2009	4,002,212	4,792,819	790,607	84%	1,043,215	76%
6/30/2010	3,889,890	5,241,819	1,351,929	74%	1,083,780	125%
6/30/2011	3,800,479	5,410,144	1,609,665	70%	1,071,376	150%
SRS						
6/30/2009	200,690	223,893	23,203	90%	51,457	45%
6/30/2010	200,739	246,734	45,995	81%	54,681	84%
6/30/2011	203,689	266,506	62,817	76%	57,041	110%
GWPORS						
6/30/2009	81,177	92,155	10,978	88%	36,023	30%
6/30/2010	85,151	113,855	28,704	75%	39,436	73%
6/30/2011	90,437	119,881	29,444	75%	38,306	77%
MPORS						
6/30/2009	214,345	345,261	130,916	62%	34,687	377%
6/30/2010	217,545	380,393	162,847	57%	37,220	438%
6/30/2011	221,669	401,381	179,712	55%	39,470	455%
FURS						
6/30/2009	209,775	306,236	96,460	69%	30,160	320%
6/30/2010	213,755	335,463	121,708	64%	33,339	365%
6/30/2011	219,959	355,188	135,229	62%	34,852	388%
TRS (1)						
7/1/2009	2,762,200	4,331,000	1,411,600	66%	683,200	207%
7/1/2010	2,956,600	4,518,200	1,561,600	65%	747,000	209%
7/1/2011	2,866,500	4,658,600	1,792,100	62%	746,700	240%
Nonemployer Contributor						
VFCA						
6/30/2009	27,226	33,548	6,322	81%	N/A	N/A
6/30/2010	26,575	34,512	7,936	77%	N/A	N/A
6/30/2011	26,183	35,195	9,012	74%	N/A	N/A

(1) For TRS, the unfunded actuarial accrued liability (UAAL) amount doesn't equal column b minus column a as the UAAL amount includes the present value of future university supplemental contributions.

REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFITS PLAN INFORMATION (OPEB)

The State of Montana and the Montana University System (MUS) implemented Governmental Accounting Standards Board (GASB) Statements 43 and 45 as of June 30, 2008 (see Notes 2 and 7).

The State of Montana and MUS OPEB plans allow retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in the reporting of an “implied rate” subsidy in the related financial statements and footnotes. While this liability is disclosed for financial statement purposes, it does not represent a legal liability of the State or any of its component units.

In accordance with GASB Statement 45, the following information is presented to reflect the funding progress of the Other Postemployment Benefits Plans.

Other Postemployment Benefits Plan Information (1)
Schedule of Funding Progress
(in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
State Agent Multiple Employer Plan						
1/1/2007	\$ -	\$ 449,321	\$ 449,321	0.00%	\$519,969	86.41%
1/1/2009	\$ -	\$ 357,664	\$ 357,664	0.00%	\$526,794	67.89%
MUS Agent Multiple Employer Plan						
7/1/2007	\$ -	\$ 182,597	\$ 182,597	0.00%	\$ 349,259	52.28%
7/1/2009	\$ -	\$ 183,230	\$ 183,230	0.00%	\$ 386,751	47.40%

(1) The State and the MUS implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, for the fiscal year ended June 30, 2008. Information for prior years is not available.

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State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2011

AMOUNT**PEACE CORPS**

08.999	Miscellaneous Non-Major Grants	11,017
	TOTAL	\$11,017

DEPARTMENT OF AGRICULTURE

10.001	Agricultural Research-Basic and Applied Research	4,000
10.025	Plant and Animal Disease, Pest Control, and Animal Care	1,000,073
10.028	Wildlife Services	56,391
10.069	Conservation Reserve Program	164
10.072	Wetlands Reserve Program	19,491
10.156	Federal-State Marketing Improvement Program	18,911
10.162	Inspection Grading and Standardization	35,092
10.163	Market Protection and Promotion	517,670
10.169	Specialty Crop Block Grant Program	181,274
10.217	Higher Education Challenge Grants	39,119
10.220	Higher Education Multicultural Scholars Program	797
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	587,351
10.479	Food Safety Cooperative Agreements	28,686
10.500	Cooperative Extension Service	2,799,339
10.500	Cooperative Extension Service: From Kansas State Univ.	15,250
10.500	Cooperative Extension Service: From Fort Belknap Comm. Council	54,454
10.550	Food Donation	3,038,406
10.557	Special Supplemental Nutrition Program for Women, Infants, & Children	16,576,444
10.558	Child and Adult Care Food Program	10,604,590
10.560	State Administrative Expenses for Child Nutrition	882,942
10.565	Commodity Supplemental Food Program	2,353,235
10.567	Food Distribution Program on Indian Reservations	3,414,224
10.572	WIC Farmers' Market Nutrition Program (FMNP)	40,348
10.574	Team Nutrition Grants	353,630
10.576	Senior Farmers Market Nutrition Program	88,191
10.578	ARRA WIC Grants To States	237,038
10.579	Child Nutrition Discretionary Grants Limited Availability	47,908
10.580	Food Stamp Program Outreach/Participation Program	659,462
10.582	Fresh Fruit and Vegetable Program	1,146,880

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2011

AMOUNT

10.601	Market Access Program: From US Livestock Genetics Export	11,573
10.601	Market Access Program: From West. US Ag. Trade Assoc.	9,341
10.652	Forestry Research	299,617
10.664	Cooperative Forestry Assistance	5,365,849
10.676	Forest Legacy Program	2,030,804
10.680	Forest Health Protection	21,004
10.683	National Fish and Wildlife Foundation: From Nat. Fish & Wild. Found.	75,000
10.684	International Forestry Programs	236,888
10.687	ARRA - Capital Improvement Maintenance	48,663
10.688	ARRA Wildlife Fire Management	3,737,585
10.700	National Agricultural Library	(658)
10.901	Resource Conservation and Development	50,000
10.902	Soil and Water Conservation	74,422
10.912	Environmental Quality Incentives Program	78,085
10.999	Miscellaneous Non-Major Grants	13,136

TOTAL **\$56,852,669**

CHILD NUTRITION CLUSTER

10.553	School Breakfast Program	6,325,319
10.555	National School Lunch Program	23,700,249
10.556	Special Milk Program for Children	18,046
10.559	Summer Food Service Program for Children	1,245,919

TOTAL **\$31,289,533**

EMERGENCY FOOD ASSISTANCE CLUSTER

10.568	Emergency Food Assistance Program (Administrative Costs)	188,368
10.568	ARRA Emergency Food Assistance Program (Administrative Costs)	99,067
10.569	Emergency Food Assistance Program (Food Commodities)	1,732,818

TOTAL **\$2,020,253**

SCHOOLS AND ROADS CLUSTER

10.665	Schools and Roads: Grants to States	23,359,896
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TOTAL **\$23,359,896**

SNAP CLUSTER

10.551	Supplemental Nutrition Assistance Program (SNAP)	161,595,587
10.551	ARRA Supplemental Nutrition Assistance Program (SNAP)	28,745,522

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2011

		AMOUNT
10.561	State Administrative Matching Grants for SNAP Program	11,896,637
10.561	ARRA State Administrative Matching Grants for SNAP Program	275,058
TOTAL		\$202,512,804
 DEPARTMENT OF COMMERCE		
11.400	Geodetic Surveys and Services	27,391
11.550	Public Telecommunication Facilities-Planning and Construction	635,369
11.550	Public Telecommunication Facilities-Planning and Construction: From Corp for Public Broadcasting	174,968
11.555	Public Safety Interoperable Communications Grant Program	5,233,537
11.557	ARRA - Broadband Technology Opportunities Program (BTOP)	607,526
11.568	ARRA State Broadband Data and Development	249,051
11.609	Measurement and Engineering Research and Standards	1,900
TOTAL		\$6,929,742
 PUBLIC WORKS AND E.D. CLUSTER		
11.307	Economic Adjustment Assistance	347,020
11.307	ARRA Economic Adjustment Assistance	2,565,470
TOTAL		\$2,912,490
 DEPARTMENT OF DEFENSE		
12.112	Payments to States in Lieu of Real Estate Taxes	14,404
12.400	Military Construction National Guard	4,672,970
12.401	National Guard Military Operations and Maintenance Projects	21,685,620
12.401	ARRA National Guard Military Operations and Maintenance Projects	454,143
12.404	National Guard Civilian Youth Opportunities	3,035,141
12.599	Congressionally Directed Assistance	998,066
12.900	Language Grant Program	20,776
12.900	Language Grant Program: From Inst. Int'l. Ed., Inc.	548,583
12.901	Mathematical Sciences Grants Program	56,861
TOTAL		\$31,486,564
 DEPARTMENT OF HOUSING & URBAN DEVELOPMENT		
14.103	Interest Reduction Payments Rental and Cooperative Housing for Lower Income Families	233,228
14.169	Housing Counseling Assistance Program	165,566

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		AMOUNT
14.231	Emergency Shelter Grants Program	394,503
14.235	Supportive Housing Program	66,980
14.238	Shelter Plus Care	197,435
14.239	Home Investment Partnerships Program	2,879,614
14.241	Housing Opportunities for Persons with AIDS	918,912
14.257	ARRA Homeless Prevention & Rapid Re-Housing Program	1,534,545
14.258	ARRA Tax Credit Assistance Program (Recovery Act Funded)	4,072,645
TOTAL		\$10,463,428
CDBG - STATE ADMIN. SMALL CITIES CLUSTER		
14.228	Community Development Block Grant/States Program	14,482,251
14.255	ARRA CDBG	271,636
TOTAL		\$14,753,887
HOUSING VOUCHER CLUSTER		
14.871	Section 8 Housing Choice Vouchers	18,176,269
TOTAL		\$18,176,269
SECTION 8 PROJECT-BASED CLUSTER		
14.195	Section 8 Housing Assistance Payments Program Special Allocations	19,549,934
14.856	Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation	1,849,098
TOTAL		\$21,399,032
DEPARTMENT OF THE INTERIOR		
15.114	Indian Education: Higher Education Grant Program	41,964
15.224	Cultural Resource Management	53,550
15.225	Recreation Resource Management	35,829
15.228	Wildland Urban Interface Community and Rural Fire Assistance	53,693
15.231	Fish, Wildlife and Plant Conservation Resource Management	363,163
15.233	ARRA - Forests and Woodlands Resource Management	58,229
15.234	Secure Rural Schools and Community Self-Determination	316,530
15.236	Environmental Quality and Protection Resource Management	1,159,758
15.236	ARRA Environmental Quality and Protection Resource Management	1,476,850
15.238	Challenge Cost Share	4,537
15.242	National Fire Plan - Rural Fire Assistance	708,812
15.250	Regulation Surface Coal Mining and Surface Effects of Underground Coal Mining	1,380,091

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		AMOUNT
15.252	Abandoned Mine Land Reclamation (AMLR) Program	3,550,336
15.507	ARRA WaterSMART (Sustaining and Manage America's Resources for Tomorrow)	4,460
15.517	Fish and Wildlife Coordination Act	86,214
15.517	ARRA Fish and Wildlife Coordination Act	15,278
15.608	Fish and Wildlife Management Assistance	142,316
15.608	Fish and Wildlife Management Assistance: From Nat. Fish & Wild. Found.	70,847
15.608	Fish and Wildlife Management Assistance: From Park Conservation District	11,000
15.612	Endangered Species Section 6	126,894
15.615	Cooperative Endangered Species Conservation Fund	17,081,117
15.631	National Fire Plan - Rural Fire Assistance	20,996
15.632	Conservation Grants Private Stewardship for Imperiled Species	50,887
15.633	Landowner Incentive	51,667
15.634	State Wildlife Grants	1,581,956
15.634	State Wildlife Grants: From WA Dept. of Fish and Wildlife	866
15.637	Migratory Bird Joint Ventures	6,924
15.655	Migratory Bird Monitoring, Assessment and Conservation	110,474
15.808	U.S. Geological Survey-Research and Data Acquisition	1,207
15.814	National Geological and Geophysical Data Preservation Program	34,822
15.904	Historic Preservation Fund Grants-in-Aid	835,058
15.916	Outdoor Recreation: Acquisition, Development and Planning	292,852
15.929	Save America's Treasures	34,788
15.999	Miscellaneous Non-Major Grants	320,574
TOTAL		\$30,084,539
 FISH AND WILDLIFE CLUSTER		
15.605	Sport Fish Restoration	8,578,089
15.611	Wildlife Restoration	6,087,576
TOTAL		\$14,665,665
 DEPARTMENT OF JUSTICE		
16.001	Law Enforcement Assistance: Narcotics and Dangerous Drugs-Laboratory Analysis	23,061
16.012	Alcohol, Tobacco, and Firearms-Training Assistance	20,786
16.017	Sexual Assault Services Formula Program	137,367
16.200	Community Relations Service	145,848
16.203	Comprehensive Approaches to Sex Offender Management Discretionary Grant	52,094

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	AMOUNT
16.304 Law Enforcement Assistance-National Crime Information Center	16,898
16.523 Juvenile Accountability Incentive Block Grants	381,989
16.529 Education and Training to End Violence Against and Abuse of Women with Disabilities: From MT Coal Against Dom. Violence	20,670
16.540 Juvenile Justice and Delinquency Prevention: Allocation to States	594,208
16.541 Part E - Developing, Testing and Demonstrating Promising New Programs	180,912
16.548 Title V Delinquency Prevention	34,644
16.550 State Justice Statistics Program For Statistical Analysis Centers	77,042
16.554 National Criminal History Improvement Program (NCHIP)	552,887
16.560 National Institute of Justice Research, Evaluation, and Development Project Grants	37,187
16.575 Crime Victim Assistance	1,804,403
16.576 Crime Victim Compensation	268,111
16.580 Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Prog	134,402
16.585 Drug Court Discretionary Grant Program	93,916
16.588 Violence Against Women Formula Grants	859,251
16.588 ARRA Violence Against Women Formula Grants	492,574
16.590 Grants to Encourage Arrest Policies and Enforcement of Protection Orders	4,835
16.593 Residential Substance Abuse Treatment for State Prisoners	62,164
16.606 State Criminal Alien Assistance Program	26,092
16.607 Bulletproof Vest Partnership Program	22,168
16.609 Community Prosecution and Project Safe Neighborhoods	90,521
16.710 Public Safety Partnership and Community Policing Grants	379,184
16.726 Juvenile Mentoring Program: From National 4-H Council	21,684
16.727 Enforcing Underage Drinking Laws Program	362,972
16.731 Tribal Youth Program	94,236
16.738 Edward Byrne Memorial Justice Assistance Grant Program	1,293,258
16.741 Forensic DNA Backlog Reduction Program	3,963
16.742 Paul Coverdell Forensic Sciences Improvement Grant Program	137,114
16.753 Congressionally Recommended Awards	286,937
16.754 Harold Rogers Prescription Drug Monitoring Program	30,022
16.801 ARRA - State Victim Assistance Formula Grant Program	52,916
16.803 ARRA-Eward Byrne Memorial Justice Assistance Grant (JAG)	742,295
16.810 ARRA Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Prg	842,459

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	AMOUNT
16.812 Second Chance Act Prisoner Reentry Initiative	33,709
16.816 John R. Justice Prosecutors and Defenders Incentive Act	96,259
TOTAL	\$10,511,038

DEPARTMENT OF LABOR

17.002 Labor Force Statistics	773,703
17.005 Compensation and Working Conditions Data	83,685
17.225 Unemployment Insurance	294,408,720
17.225 ARRA Unemployment Insurance	198,036
17.235 Senior Community Service Employment Program	66,121
17.261 Employment and Training Administration Pilots, Demonstrations, and Research Projects	85,913
17.266 Work Incentive Grants	980,505
17.267 Incentive Grants - WIA Section 503	(11,765)
17.269 Community Based Job Training Grants	921,594
17.269 Community Based Job Training Grants: From Arkansas State University Newport	8,645
17.271 Work Opportunity Tax Credit Program (WOTC) & Welfare-to-Work Tax Credit (WtWTC)	90,200
17.273 Temporary Labor Certification for Foreign Workers	83,214
17.274 ARRA Youthbuild	609,167
17.275 Comp Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors: From MT Electrical Joint Apprenticeship	5,137,386
17.504 Consultation Agreements	496,465
17.600 Mine Health and Safety Grants	133,955
17.807 Transition Assistance Program	14,001
17.999 National Occupational Information Coordinating Committee	73,726
TOTAL	\$304,153,271

EMPLOYMENT SERVICES CLUSTER

17.207 Employment Service	6,178,707
17.207 ARRA Employment Services	583,171
17.207 Employment Service: From North Carolina	2,721
17.801 Disabled Veterans Outreach Program (DVOP)	610,347
17.804 Local Veterans' Employment Representative Program	298,336
TOTAL	\$7,673,282

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AMOUNT**WIA CLUSTER**

17.258	WIA Adult Program	2,181,308
17.258	ARRA WIA Adult Program	94,679
17.259	WIA Youth Activities	2,249,980
17.259	ARRA WIA Youth Activities	197,632
17.260	WIA Dislocated Workers	3,267,955
17.260	ARRA WIA Dislocated Workers	184,880
TOTAL		\$8,176,434

DEPARTMENT OF STATE

19.009	Academic Exchange Programs - Undergraduate Programs	224,306
19.014	One-Time International Exchange Grant Program	163,564
19.408	Educational Exchange - Teachers from Secondary and Postsecondary Levels: From Inter Res. & Ex. Board	179,043
19.500	Middle East Partnership Initiative (MEPI): From Inst. of Translational Health Sci.	174,841
19.999	Miscellaneous Grants: From Amer. Councils for Internat. Educ.	2,077
TOTAL		\$743,831

DEPARTMENT OF TRANSPORTATION

20.106	Airport Improvement Program	(12)
20.218	National Motor Carrier Safety	1,319,714
20.231	Performance and Registration Information Systems Management	27,736
20.233	Border Enforcement Grants	1,007,624
20.238	Commercial Drivers License Information System (CDLIS) Modernization Grant	532,643
20.505	Federal Transit Technical Studies Grant	416,635
20.509	Formula Grants for Other Than Urbanized Areas	7,433,475
20.509	ARRA Formula Grants for Other Than Urbanized Areas	5,831,170
20.515	State Planning and Research	88,396
20.608	Minimum Penalties for Repeat Offenders for Driving While Intoxicated	1,506,902
20.614	National Highway Transportation Safety Administration (NHTSA) Discretionary Safety Grants	78,995
20.700	Pipeline Safety	71,281
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	63,090
20.930	Payments for Small Community Air Service Development	953

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		AMOUNT
20.999	Miscellaneous Non-Major Grants	7,909
	TOTAL	\$18,386,511
FEDERAL TRANSIT CLUSTER		
20.500	Federal Transit Capital Improvement Grants	1,187,652
	TOTAL	\$1,187,652
HIGHWAY PLAN. AND CONST. CLUSTER		
20.205	Highway Planning and Construction	365,386,106
20.205	ARRA Highway Planning and Construction	90,427,137
20.219	Recreational Trails Program	1,418,522
	TOTAL	\$457,231,765
HIGHWAY SAFETY CLUSTER		
20.600	State and Community Highway Safety	2,100,919
20.601	Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	2,316,000
20.602	Occupant Protection	163,245
20.605	Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	6,116
20.610	State Traffic Safety Information System Improvement Grants	418,495
20.610	State Traffic Safety Information System Improvement Grants: From National Motor Carrier Safety - AMMVA	13,000
20.611	Incentive Grant Program to Prohibit Racial Profiling	14,659
	TOTAL	\$5,032,434
TRANSIT SERVICES PROGRAM CLUSTER		
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	484,779
20.516	Job Access Reverse Commute	958,524
	TOTAL	\$1,443,303
DEPARTMENT OF TREASURY		
21.999	Miscellaneous Non-Major Grants	124,987
21.999	ARRA Miscellaneous Non-Major Grants	5,824,550
	TOTAL	\$5,949,537
EQUAL EMPLOYMENT OPPORTUNITY COMMISSION		
30.002	Employment Discrimination-State and Local Fair Employment Practices	102,260
	TOTAL	\$102,260

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AMOUNT**GENERAL SERVICES ADMINISTRATION**

39.003	Donation of Federal Surplus Personal Property	2,740
39.011	Election Reform Payments	123,142
TOTAL		\$125,882

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

43.001	Aerospace Education Services Program	20,269
43.002	Technology Transfer	5,845
43.999	Miscellaneous Non-Major Grants	11,329
TOTAL		\$37,443

NATIONAL ENDOWMENT FOR THE HUMANITIES

45.024	Promotion of the Arts-Grants to Organizations and Individuals	52,639
45.025	Promotion of the Arts-Partnership Agreements	767,852
45.025	ARRA Promotion of the Arts-Partnership Agreements	95,050
45.129	Promotion of the Humanities-Federal/State Partnership	218,157
45.129	Promotion of the Humanities-Federal/State Partnership: From Humanities Montana	24,724
45.130	Promotion of the Humanities - Challenge Grants: From Humanities Montana	1,000
45.310	State Library Program	1,008,580
45.312	Institute of Museum and Library Services - National Leadership Grants	30,451
45.313	Laura Bush 21st Century Librarian Program	286,189
TOTAL		\$2,484,642

NATIONAL SCIENCE FOUNDATION

47.041	Engineering Grants: From University of Alaska	1,101
47.049	Mathematical and Physical Sciences	(23)
47.049	Mathematical and Physical Sciences: From Brigham Young University	5,206
47.074	Biological Sciences	77,070
47.075	Social, Behavioral, and Economic Sciences	9,947
47.076	Education and Human Resources	1,104,744
47.076	Education and Human Resources: From Salish Kootenai College	285,696
47.076	Education and Human Resources: From American Assoc. for Adv. Science	3,588

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		AMOUNT
47.082	ARRA Trans-NSF Recovery Act Research Support: From Black Hills State Univ.	4,404
TOTAL		\$1,491,733
SMALL BUSINESS ADMINISTRATION		
59.000	Small Business Administration-Technical Assistance Grant	214,671
59.005	Internet-Based Technical Assistance	6,982
59.037	Small Business Development Center	657,353
59.058	Federal and State Technology Partnership Program	48,249
TOTAL		\$927,255
DEPARTMENT OF VETERANS AFFAIRS		
64.014	Veterans State Domiciliary Care	115,840
64.015	Veterans State Nursing Home Care	4,995,248
64.124	All-Volunteer Force Educational Assistance	93,708
TOTAL		\$5,204,796
ENVIRONMENTAL PROTECTION AGENCY		
66.040	State Clean Diesel Grant Program	516,052
66.040	ARRA State Clean Diesel Program	1,678,144
66.202	Congressionally Mandated Projects	280,289
66.433	State Underground Water Source Protection	110,450
66.436	Surveys, Studies, Investigations & Demonstrations of the Clean Water Act	41
66.454	Water Quality Management Planning	101,000
66.454	ARRA Water Quality Management Planning	110,009
66.458	Capitalization Grants For State Revolving Funds	6,948,217
66.458	ARRA Capitalization Grants For State Revolving Funds	4,553,361
66.460	Nonpoint Source Implementation Grants	2,671,541
66.461	Regional Wetland Program Development Grants	192,259
66.467	Wastewater Operator Training Grant Program (Technical Assistance)	8,411
66.468	Capitalization Grants for Drinking Water State Revolving Fund	9,998,608
66.468	ARRA Capitalization Grants for Drinking Water State Revolving Fund	4,991,762
66.471	State Grants to Reimburse Operators of Small Water Sys for Training Certification Costs	77,190
66.474	Water Protection Grants to the States	95,086

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	AMOUNT
66.514 Science To Achieve Results (STAR) Fellowship Program	42,372
66.605 Performance Partnership Grants	5,695,695
66.608 One Stop Reporting	93,826
66.708 Pollution Prevention Grants Program	6,604
66.802 Superfund State, Political Subdivision, and Indian Tribe Site - Specific Coop.	3,108,280
66.804 State Underground Storage Tanks Program	354,709
66.805 Leaking Underground Storage Tank Trust Fund Program	1,393,306
66.805 ARRA Leaking Underground Storage Tank Trust Fund Program	496,141
66.809 Superfund State and Indian Tribe Core Program Cooperative Agreements	173,202
66.817 State and Tribal Response Program Grants	492,471
66.951 Environmental Education Grants	48,652
TOTAL	\$44,237,678

DEPARTMENT OF ENERGY

81.041 State Energy Program	125,944
81.041 ARRA State Energy Program	12,012,137
81.041 State Energy Program: From Washington State University	136,840
81.042 Weatherization Assistance for Low-Income Persons	1,914,279
81.042 ARRA Weatherization Assistance for Low-Income Persons	12,709,559
81.042 Weatherization Assistance for Low-Income Persons: From Univ. of Nebraska Lincoln	10,106
81.049 Office of Science Financial Assistance Program: From Inland NW Research All.	7
81.086 Conservation Research and Development	2,470,348
81.087 Renewable Energy Research and Development	314,120
81.112 Stewardship Science Grant Program	92,871
81.117 Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training	101,960
81.119 State Energy Program Special Projects	23,423
81.127 ARRA Energy Efficient Appliance Rebate Program (EEARP)	761,368
81.128 ARRA Energy Efficiency and Conservation Block Grant Program (EECBG)	4,046,610
81.999 Miscellaneous Non-Major Grants: From Pacific Northwest National Laboratory	82,831
TOTAL	\$34,802,403

DEPARTMENT OF EDUCATION

84.002 Adult Education - State Grant Program	1,431,717
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	AMOUNT
84.011 Migrant Education - Basic State Grant Program	1,006,701
84.013 Title I Program for Neglected and Delinquent Children	103,920
84.017 International Research and Studies	43,222
84.048 Vocational Education - Basic Grants to States	5,453,006
84.051 National Vocational Education Research	41,764
84.069 Leveraging Educational Assistance Partnership	215,885
84.116 Fund for the Improvement of Postsecondary Education	235,171
84.116 Fund for the Improvement of Postsecondary Education: From New Mexico State Univ.	14,604
84.128 Rehabilitation Services-Service Projects	85,203
84.129 Rehabilitation Long-Term Training	84,108
84.133 National Institute on Disability and Rehabilitation Research	1,018,009
84.144 Migrant Education - Coordination Program(B)	105,191
84.184 Safe and Drug-Free Schools and Communities - National Programs	54,834
84.185 Byrd Honors Scholarships	132,257
84.186 Safe and Drug-Free Schools and Communities - State Grants	439,134
84.187 Supported Employment Services for Individuals with Severe Disabilities	338,436
84.213 Even Start - State Educational Agencies	289,006
84.215 Fund for Improvement of Education	29,226
84.224 State Grants for Assistive Technology	416,302
84.243 Tech-Prep Education	333,729
84.265 Rehabilitation Training-State Vocational Rehabilitation Unit In-Service	10,617
84.287 Twenty-First Century Community Learning Centers	5,604,979
84.293 Foreign Language Assistance: From Missoula Co. Public Schools	70,305
84.299 Indian Education - Special Programs	50,936
84.323 Special Education - State Program Improvement Grants for Children with Disabilities	712,667
84.325 Special Education - Personnel Preparation to Improve Services and Results for Children	15,270
84.326 Special Education - Technical Assistance and Dissemination to Improve Services and Results	136,651
84.326 Special Education - Technical Assistance and Dissemination to Improve Services and Results: From CA State Univ. - Northridge	125,328
84.330 Advanced Placement Program	31,677
84.331 Grants to States for Incarcerated Youth Offenders	31,506
84.334 Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)	3,367,400
84.335 Child Care Access Means Parents in School	42,558

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		AMOUNT
84.357	Reading First State Grants	44,812
84.358	Rural Education	298,148
84.359	Early Reading First	1,649,897
84.365	English Language Acquisition Grants	487,903
84.366	Mathematics and Science Partnerships	1,061,251
84.367	Improving Teacher Quality State Grants	13,426,187
84.367	Improving Teacher Quality State Grants: From MT Learning Center	4,726
84.368	Grants for Enhanced Assessment Instruments	75,068
84.369	Grants for State Assessments and Related Activities	3,755,617
84.371	Striving Readers	17,998
84.373	Special Education -Technical Assistance on State Data Collection	104,208
84.378	College Access Challenge Grant Program	1,086,209
84.410	Education Jobs Fund	30,737,469
84.998	American Printing House for the Blind	5,291
84.999	Miscellaneous Non-Major Grants	202,726
84.999	Miscellaneous Non-Major Grants: From Univ of CA - Ntl Writing Project	69,993
84.999	Miscellaneous Non-Major Grants: From WEST ED	39,542
TOTAL		\$75,138,364
 EARLY INTERVENTION SERVICES (IDEA) CLUSTER		
84.181	Special Education-Grants for Infants and Families with Disabilities	1,888,810
84.393	ARRA Special Education - Grants for Infants and Families	907,657
TOTAL		\$2,796,467
 EDUC. OF HOMELESS CHILDREN AND YOUTH CLUSTER		
84.196	Education for Homeless Children and Youth	215,638
84.387	ARRA Education for Homeless Children and Youth, Recovery Act	48,925
TOTAL		\$264,563
 EDUCATIONAL TECHNOLOGY STATE GRANTS CLUSTER		
84.318	Education Technology State Grants	836,032
84.386	ARRA Education Technology State Grants	1,838,912
84.386	ARRA Education Technology State Grants: From Bridger School	172,751
TOTAL		\$2,847,695

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AMOUNT

INDEP. LIVING SERV.FOR OLDER AND BLIND CLUSTER

84.177	Rehabilitation Services-Independent Living Services for Older Individuals/Blind	121,524
TOTAL		\$121,524

INDEPENDENT LIVING STATE GRANTS CLUSTER

84.169	Independent Living-State Grants	428,016
84.398	ARRA Independent Living State Grants	57,040
TOTAL		\$485,056

SCHOOL IMPROVEMENT GRANTS CLUSTER

84.377	School Improvement Grants	146,855
84.388	ARRA School Improvement Grants, Recovery Act	2,576,764
TOTAL		\$2,723,619

SPECIAL EDUCATION CLUSTER

84.027	Special Education - Grants to States	34,035,292
84.173	Special Education - Preschool Grants	1,255,416
84.391	ARRA Special Education Grants to States	15,132,102
84.392	ARRA Special Education - Preschool Grants, Recovery Act	530,304
TOTAL		\$50,953,114

STATE FISCAL STABILIZATION FUND CLUSTER

84.394	ARRA State Fiscal Stabilization Fund (SFSF) - Education State Grants	46,772,525
84.397	ARRA State Fiscal Stabilization Fund (SFSF) - Government Services	30,957,668
TOTAL		\$77,730,193

STATEWIDE DATA SYSTEMS CLUSTER

84.372	Statewide Data Systems	869,882
TOTAL		\$869,882

STUDENT FINANCIAL ASSISTANCE CLUSTER

84.007	Federal Supplemental Educational Opportunity Grants	1,320,327
84.032	Federal Family Education Loans	1,107,413
84.033	Federal Work - Study Program	2,201,678
84.038	Federal Perkins Loan Program - Federal Capital Contributions	65,535
84.063	Federal Pell Grant Program	65,630,947
84.268	Federal Direct Student Loans	210,244,170
84.375	Academic Competitiveness Grants	1,207,486
84.376	National Science and Mathematics Access to Retain Talent (SMART) Grants	1,347,635

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		AMOUNT
93.342	Health Professions Student Loans, Including Primary Care Loans	4,566
93.364	Nursing Student Loan Program	2,032
93.925	Scholarships for Health Professions Students from Disadvantaged Backgrounds	485,901
TOTAL		\$283,617,690
TEACHER QUALITY PARTNERSHIP GRANTS CLUSTER		
84.336	Teacher Quality Enhancement Grants	534,069
TOTAL		\$534,069
TITLE 1, PART A CLUSTER		
84.010	Title I Grants To Local Education Agencies	43,372,963
84.389	ARRA Title I Grants to Local Educational Agencies, Recovery Act	15,451,165
TOTAL		\$58,824,128
TRIO CLUSTER		
84.042	TRIO-Student Support Services	1,106,647
84.042	ARRA TRIO-Student Support Services	423,730
84.044	TRIO-Talent Search	998,860
84.047	TRIO-Upward Bound	2,049,380
84.066	TRIO-Educational Opportunity Centers	581,128
84.217	McNair Post - Baccalaureate Achievement	278,733
TOTAL		\$5,438,478
VOCATIONAL REHABILITATION CLUSTER		
84.126	Rehabilitation Services-Vocational Rehabilitation Grants to States	11,145,917
84.390	ARRA - Rehabilitation Services-Vocational Rehabilitation	1,025,583
TOTAL		\$12,171,500
NATIONAL ARCHIVES AND RECORDS ADMINISTRATION		
89.003	National Historical Publications and Records Grants	11,563
TOTAL		\$11,563
ELECTION ASSISTANCE COMMISSION		
90.401	Help America Vote Act Requirements Payments	666,421
90.402	Help America Vote Mock Election Program	29,454
TOTAL		\$695,875

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AMOUNT**DEPARTMENT OF HEALTH AND HUMAN SERVICES**

93.041	Special Programs for the Aging-Title VII, Chapter 3-Programs for Prevention	25,028
93.042	Special Programs for the Aging-Title VII, Chapter 2-LongTerm Care Ombudsman Services	82,767
93.043	Special Programs for the Aging-Title III, Part D - DiseasePrevention/Health Promotion Serv	105,131
93.048	Special Programs for the Aging - Title IV and Title II Discretionary Projects	262,174
93.052	Nation Family Caregiver Support Program	733,935
93.069	Public Health Emergency Preparedness	5,369,423
93.070	Environmental Public Health and Emergency Response	335,883
93.071	Medicare Enrollment Assistance Program	5,482
93.089	Emergency System for Advance Registration of Volunteer Health Professionals	45,843
93.090	ARRA Guardianship Assistance	343,526
93.092	Affordable Care Act (ACA) Personal Responsibility Education Program	30,721
93.104	Comprehensive Community Mental Health Services for Children with Ser Emotl Disturb (SED)	92,049
93.110	Maternal and Child Health Federal Consolidated Programs	230,402
93.110	Maternal and Child Health Federal Consolidated Programs: From Utah State University	11,503
93.116	Project Grant and Cooperative for Tuberculosis Control Program	182,478
93.127	Emergency Medical Services for Children	136,285
93.130	Primary Care Services-Resource Coordination and Development	172,239
93.150	Projects for Assistance in Transition from Homelessness (PATH)	279,700
93.157	Centers of Excellence	329,453
93.184	Disabilities Prevention	362,551
93.210	Tribal Self-Governance Program: IHS Compacts/Funding Agreements	28,909
93.217	Family Planning Services	2,402,440
93.234	Traumatic Brain Injury-State Demonstration Grant Program	42
93.236	Grants for Dental Public Health Residency Training	62,828
93.241	State Rural Hospital Flexibility Program	637,099
93.243	Substance Abuse and Mental Health Services-Projects of Regional and National Significance	3,458,892
93.249	Public Health Training Centers Grant Program: From Univ. of Washington	27,911
93.251	Universal Newborn Hearing Screening	156,630
93.259	Rural Access to Emergency Devices Grant	111,967
93.262	Occupational Safetv and Health Proqram	118,586

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	AMOUNT
93.262 Occupational Safety and Health Program: From Co. State Univ.	7,086
93.264 Nurse Faculty Loan Program (NFLP)	81,504
93.283 Centers for Disease Control and Prevention-Investigations and Technical Assistance	8,677,165
93.307 Minority Health and Health Disparities Research	9,375,000
93.308 Extramural Loan Repayment for Indiv from Disadvant. Backgrounds Cond Clinical Research	163,958
93.358 Advanced Education Nursing Traineeships	31,890
93.389 National Center for Research Resources	144,026
93.407 ARRA - Scholarships for Disadvantaged Students	314,782
93.411 ARRA - Equipment to Enhance Training for Health Professionals	132,065
93.414 ARRA - State Primary Care Offices	30,388
93.448 Food Safety and Security Monitoring Project	59,798
93.449 Ruminant Feed Ban Support Project	22,539
93.500 ARRA - Pregnancy Assistance Fund Program	33,881
93.505 Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	23,498
93.507 Strengthening Public Health Infrastructure for Improved Health Outcomes	64,453
93.509 ARRA Affordable Care Act (ACA) State Health Care Workforce Development Grants	22,500
93.511 Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	448,429
93.518 Affordable Care Act - Medicare Improvements for Patients and Providers	27,998
93.519 Affordable Care Act (ACA) - Consumer Assistance Program Grants	64,097
93.521 The Affordable Care Act: Building Epidemiology, Lab, and Health Info Systems Capacity	146,916
93.525 State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	293,442
93.556 Promoting Safe and Stable Families	853,467
93.563 Child Support Enforcement	8,575,571
93.563 ARRA Child Support Enforcement	498,293
93.566 Refugee and Entrant Assistance-State Administered Programs	13,403
93.568 Low Income Home Energy Assistance	21,812,314
93.586 State Court Improvement Program	393,783
93.590 Community-Based Family Resource and Support Grants	222,937
93.597 Grants to States for Access and Visitation Programs	99,989
93.599 Chafee Education and Training Vouchers Program (ETV)	189,535

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	AMOUNT
93.603 Adoption Incentive Payments	364
93.617 Voting Access for Individuals with Disabilities - Grants to States	102,572
93.630 Developmental Disabilities Basic Support and Advocacy Grants	56,958
93.632 University Centers for Excellence in Developmental Disabilities Education, Res, and Ser.	510,672
93.643 Children's Justice Grants to States	102,708
93.645 Child Welfare Service-State Grant	664,007
93.648 Child Welfare Serv. Training: From Reserch Found. at SUNY	147,869
93.658 Foster Care Title IV-E	10,969,559
93.658 ARRA Foster Care Title IV-E	236,483
93.659 Adoption Assistance	6,751,103
93.659 ARRA Adoption Assistance	389,965
93.667 Social Services Block Grant	6,535,137
93.669 Child Abuse and Neglect State Grants	116,985
93.671 Family Violence Prevention and Services/Grants for Battered Women's Shelters	791,838
93.674 Chafee Foster Care Independence Program	364,502
93.701 ARRA Trans-NIH Recovery Act Research Support	143,052
93.717 ARRA Preventing Healthcare-Associated Infections	84,146
93.721 ARRA - Health Information Technology Professionals in Health Care: From Bellevue Community College	233,103
93.723 ARRA Emergency Contingency Fund for Temporary Assistance	60,360
93.729 ARRA -Health Information Technology and Public Health	12,124
93.767 State Children's Insurance Program	47,044,602
93.768 Medicaid Infrastr, Grants To Support the Competitive Employ of People with Disabilities	737,543
93.789 Alternatives to Psychiatric Residential Treatment Facilities for Children	821,612
93.793 Medicaid Transformation Grants	32,843
93.888 Specially Selected Health Projects	17,042
93.889 National Bioterrorism Hospital Preparedness Program	1,616,972
93.912 Rural Outreach-Rural Network Developmental Program	1,992
93.913 Grants to States for Operation of Offices of Rural Health	177,301
93.917 HIV Care Formula Grants	1,004,767
93.938 Cooperative Agreements to Support School Health Programs	226,256
93.940 HIV Prevention Activities-Health Department Based	1,352,119
93.944 HIV/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	74,124

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93.958	Block Grants for Community Mental Health Services	1,215,859
93.959	Block Grants for Prevention and Treatment of Substance Abuse	6,253,222
93.969	Geriatric Education Centers	363,263
93.970	Health Professions Recruitment Program for Indians	165,605
93.977	Preventive Health Services-Sexually Transmitted Diseases Control Grants	325,866
93.991	Preventive Health and Health Services Block Grant	538,055
93.994	Maternal and Child Health Services Block Grant to the States	2,457,335
93.999	Miscellaneous Non-Major Grants	73,814

TOTAL **\$161,740,283**

AGING CLUSTER

93.044	Special Programs for the Aging-Title III, Part B-Supportive Services and Senior Centers	1,787,593
93.045	Special Programs for the Aging-Title III, Part C-Nutrition Services	3,201,816
93.053	Nutrition Services Incentive Program	1,158,589
93.705	ARRA Aging Home-Delivered Nutrition Services	79,999
93.707	ARRA Aging Congregate Nutrition Services for State	162,500

TOTAL **\$6,390,497**

CCDF CLUSTER

93.575	Child Care and Development Block Grant	14,895,283
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development	10,373,176
93.713	ARRA Child Care and Development Block Grant	2,224,775

TOTAL **\$27,493,234**

CSBG CLUSTER

93.569	Community Services Block Grant	3,272,933
93.710	ARRA Community Services Block Grant	1,542,080

TOTAL **\$4,815,013**

HEAD START CLUSTER

93.600	Head Start	96,625
93.708	ARRA - Head Start	863

TOTAL **\$97,488**

IMMUNIZATION CLUSTER

93.268	Immunization Grant	9,131,449
93.712	ARRA Immunization	208,627

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		AMOUNT
		TOTAL
		\$9,340,076
MEDICAID CLUSTER		
93.775	State Medicaid Fraud Control Units	536,922
93.777	State Survey and Certification of Health Care Providers and Suppliers	2,664,690
93.778	Medical Assistance Program	697,787,859
93.778	ARRA Medical Assistance Program	80,797,821
		TOTAL
		\$781,787,292
TANF CLUSTER		
93.558	Temporary Assistance for Needy Families (TANF)	28,200,705
93.714	ARRA Emergency Contingency Fund for Temporary Assistance	3,530,747
		TOTAL
		\$31,731,452
CORPORATION FOR NATIONAL & COMMUNITY SERVICE		
94.003	State Commissions	274,617
94.004	Learn and Serve America-School and Community Based Programs	72,006
94.006	AmeriCorps	3,419,840
94.006	AmeriCorps: From W WA University	3,916
94.007	Planning and Program Development Grants	78,863
94.007	Planning and Program Development Grants: From Regis University	32,960
94.007	Planning and Program Development Grants: From Elon University	1,826
94.009	Training and Technical Assistance	83,097
94.013	Volunteers in Service to America	603,266
94.013	ARRA Volunteers in Service to America	10,605
94.999	Miscellaneous Non-Major Grants	75,076
		TOTAL
		\$4,656,072
SOCIAL SECURITY ADMINISTRATION		
96.008	Social Security-Benefits Planning, Assistance, and Outreach Program	89,048
		TOTAL
		\$89,048
DISABILITY INSURANCE/SSI CLUSTER		
96.001	Social Security - Disability Insurance	6,111,146
		TOTAL
		\$6,111,146

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AMOUNT**HOMELAND SECURITY**

97.001	Pilot Demonstration or Earmarked Projects	545,944
97.012	Boating Safety Financial Assistance	437,191
97.023	Community Assistance Program State Support Services Element (CAP-SSSE)	122,632
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	783,606
97.039	Hazard Mitigation Grant	37,733
97.041	National Dam Safety Program	244,347
97.042	Emergency Management Performance Grants	2,789,541
97.043	State Fire Training Systems Grants	17,882
97.045	Cooperating Technical Partners	1,091,049
97.046	Fire Management Assistance Grant	26,219
97.047	Pre-Disaster Mitigation	226,061
97.052	Emergency Operations Centers	229,011
97.078	Buffer Zone Protection Plan (BZPP)	384,622
97.082	Earthquake Consortium	42,905
TOTAL		\$6,978,743

HOMELAND SECURITY CLUSTER

97.067	Homeland Security Grant Program	9,281,761
TOTAL		\$9,281,761

OTHER FEDERAL

32.001	Communications Information and Assistance and Investigation of Complaints: From Corp. for Public Broadcasting	51,069
95.001	High Intensity Drug Trafficking Areas Program	128,166
95.001	High Intensity Drug Trafficking Areas Program: From City of Billings	3,682
95.001	High Intensity Drug Trafficking Areas Program: From Lewis and Clark County	12,742
99.999	Other Federal	11,995
TOTAL		\$207,654

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AMOUNT

RESEARCH AND DEVELOPMENT CLUSTER

DEPARTMENT OF AGRICULTURE

10.001	Agricultural Research-Basic and Applied Research	50,452
10.025	Plant and Animal Disease, Pest Control, and Animal Care	339,550
10.028	Wildlife Services	5,406
10.069	Conservation Reserve Program	9,765
10.156	Federal-State Marketing Improvement Program	27,444
10.200	Grants for Agricultural Research, Special Research Grants	1,867,129
10.200	Grants for Agricultural Research, Special Research Grants: From Idaho University	86,214
10.200	Grants for Agricultural Research, Special Research Grants: From Univ. of California Davis	67,157
10.200	Grants for Agricultural Research, Special Research Grants: From Utah State University	12,581
10.200	Grants for Agricultural Research, Special Research Grants: From University of Washington	43,074
10.200	Grants for Agricultural Research, Special Research Grants: From Oregon Dept of Human Serv.	39,205
10.200	Grants for Agricultural Research, Special Research Grants: From North Dakota State Univ.	7,245
10.200	Grants for Agricultural Research, Special Research Grants: From South Dakota State Univ.	71,768
10.202	Cooperative Forestry Research	194,798
10.203	Payments to Agricultural Experiment Stations Under the Hatch Act	1,891,971
10.206	Grants for Agricultural Research-Competitive Research Grants	1,132,326
10.206	Grants for Agricultural Research-Competitive Research Grants: From Univ. of California Davis	128
10.206	Grants for Agricultural Research-Competitive Research Grants: From University of Minnesota	35
10.206	Grants for Agricultural Research-Competitive Research Grants: From Univ. of Idaho	29,131
10.206	Grants for Agricultural Research-Competitive Research Grants: From Utah State University	1,375
10.207	Animal Health and Disease Research	19,846
10.210	Food and Agricultural Sciences National Needs	151,380
10.215	Sustainable Agriculture Research and Education	31,515
10.215	Sustainable Agriculture Research and Education: From Utah State University	166,405
10.215	Sustainable Agriculture Research and Education: From University of Wyoming	24,794

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10.217	Higher Education Challenge Grants	270,257
10.221	Tribal Colleges Education Equity Grants: From Fort Peck Com. College	10,967
10.227	1994 Institutions Research Program: From Fort Peck Com. College	44,701
10.227	1994 Institutions Research Program: From Chief Dull Knife College	14,708
10.227	1994 Institutions Research Program: From Fort Belknap College	1,019
10.250	Agricultural and Rural Economic Research	116,775
10.250	Agricultural and Rural Economic Research: From Co. State Univ.	(380)
10.303	Integrated Programs	492,868
10.303	Integrated Programs: From Univ. of California Davis	(17,086)
10.303	Integrated Programs: From Co. State Univ.	69,073
10.304	Homeland Security - Agricultural: From Kansas State Univ.	71,391
10.310	Agriculture and Food Research Initiative (AFRI)	309,105
10.310	Agriculture and Food Research Initiative (AFRI): From University of Minnesota	(946)
10.310	Agriculture and Food Research Initiative (AFRI): From Univ. of California Davis	150,577
10.310	Agriculture and Food Research Initiative (AFRI): From Emory University	11,416
10.443	Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers: From Fort Peck Com. College	580
10.456	Rural Community Development Initiative	1,685
10.456	Rural Community Development Initiative: From National Center for Appropriate Technology	36,074
10.500	Cooperative Extension Service	955,102
10.500	Cooperative Extension Service: From Univ. of Georgia	(4)
10.500	Cooperative Extension Service: From Auburn University	2,130
10.500	Cooperative Extension Service: From Oregon Dept of Human Serv.	16,312
10.500	Cooperative Extension Service: From Kansas State Univ.	121,827
10.500	Cooperative Extension Service: From Co. State Univ.	532
10.500	Cooperative Extension Service: From University of Wyoming	12,380
10.500	Cooperative Extension Service: From Univ. of Nebraska Lincoln	117,227
10.500	Cooperative Extension Service: From North Dakota State Univ.	15,284
10.500	Cooperative Extension Service: From Univ. of Arizona	16,582
10.500	Cooperative Extension Service: From Western Region SARE Program	19,978
10.652	Forestry Research	5,125,439
10.652	Forestry Research: From A. Carhart	127,447

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10.652	Forestry Research: From SUNY Research Institute	16,903
10.652	Forestry Research: From Nat. Fish & Wild. Found.	27,892
10.652	Forestry Research: From Blackfoot Challenge	15,253
10.652	Forestry Research: From National Forest Foundation	18,608
10.664	Cooperative Forestry Assistance	86,656
10.676	Forest Legacy Program	8,691
10.680	Forest Health Protection	67,008
10.681	Wood Education and Resource Center (WERC)	6,843
10.683	National Fish and Wildlife Foundation: From Nat. Fish & Wild. Found.	30,000
10.688	ARRA Wildlife Fire Management	3,940
10.762	Solid Waste Management Grants	199
10.859	Assistance to High Energy Cost Rural Communities: From Univ. of Nebraska Lincoln	2,300
10.902	Soil and Water Conservation	196,940
10.912	Environmental Quality Incentives Program	167,146
10.912	Environmental Quality Incentives Program: From Pollinator Partnership	12,770
10.960	Technical Agricultural Assistance	22
10.961	Scientific Cooperation and Research	10,329
10.999	Miscellaneous Non-Major Grants	14,336
10.999	Miscellaneous Non-Major Grants: From Nat. Fish & Wild. Found.	(10)
TOTAL		\$15,069,540

DEPARTMENT OF COMMERCE

11.001	Census Bureau Data Products	9,227
11.303	Economic Development-Technical Assistance	98,341
11.427	Fisheries Development & Utilization Research	6
11.431	Climate and Atmospheric Research	78,699
11.439	Marine Mammal Data Program	46,363
11.440	Environmental Sciences, Applications, Data, and Education	3,376
11.463	Habitat Conservation: From Mississippi State Univ.	31
11.609	Measurement and Engineering Research and Standards	15,368
11.611	Manufacturing Extension Partnership	678,506
TOTAL		\$929,917

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AMOUNT**DEPARTMENT OF DEFENSE**

12.002	Procurement Technical Assistance For Business Firms	3,849,147
12.002	Procurement Technical Assistance For Business Firms: From S2CORP	133,748
12.114	Collaborative Research and Development	1,345,884
12.114	Collaborative Research and Development: From ADVR Inc.	23,465
12.300	Basic and Applied Scientific Research	1,440,541
12.300	Basic and Applied Scientific Research: From M&T	(95)
12.300	Basic and Applied Scientific Research: From Yale University	(113)
12.300	Basic and Applied Scientific Research: From Adv. Accoustics Concepts	39,281
12.300	Basic and Applied Scientific Research: From S2CORP	(19)
12.300	Basic and Applied Scientific Research: From Univ. of Maryland	9,683
12.300	Basic and Applied Scientific Research: From Impact Tech. LLC.	41,662
12.300	Basic and Applied Scientific Research: From Univ. of Oklahoma	310,157
12.300	Basic and Applied Scientific Research: From Aerodyne Research	11,319
12.300	Basic and Applied Scientific Research: From Edison Welding Institute	1,171,381
12.360	Research on Chemical and Biological Defense	9,101
12.420	Military Medical Research and Development	484,333
12.431	Basic Scientific Research	321,489
12.630	Basic, Applied, and Advanced Research in Science and Engineering	307,510
12.800	Air Force Defense Research Sciences Program	1,707,299
12.800	Air Force Defense Research Sciences Program: From S.D. School of Mines	41,060
12.800	Air Force Defense Research Sciences Program: From Ald NanoSolutions Inc.	60,178
12.800	Air Force Defense Research Sciences Program: From Rutgers University	108,006
12.800	Air Force Defense Research Sciences Program: From University of Minnesota	155,853
12.910	Research and Technology Development	568,441
12.910	Research and Technology Development: From Rutgers University	36,532
12.999	Miscellaneous Non-Major Grants	5,329
12.999	Miscellaneous Non-Major Grants: From Bridger Photoincs	87,138
12.999	Miscellaneous Non-Major Grants: From ACI Technologies, Inc.	351,333
12.999	Miscellaneous Non-Major Grants: From Tetrattec	49,849
12.999	Miscellaneous Non-Major Grants: From UES Inc.	22,732
12.999	Miscellaneous Non-Major Grants: From S2 Corp	119,356

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12.999	Miscellaneous Non-Major Grants: From Radiance Technologies	174,630
	TOTAL	\$12,986,210

DEPARTMENT OF HOUSING & URBAN DEVELOPMENT

14.909	ARRA Lead Hazard Reduction Demonstration Grant Program	351,624
	TOTAL	\$351,624

DEPARTMENT OF THE INTERIOR

15.034	Agriculture on Indian Lands	2,758
15.224	Cultural Resource Management	203,638
15.228	Wildland Urban Interface Community and Rural Fire Assistance	50,309
15.230	Invasive and Noxious Plant Management	422,225
15.231	Fish, Wildlife and Plant Conservation Resource Management	448,132
15.234	Secure Rural Schools and Community Self-Determination	75,443
15.236	Environmental Quality and Protection Resource Management	119,982
15.238	Challenge Cost Share	69,671
15.238	Challenge Cost Share: From Washington State Univ.	3,427
15.239	Management Initiatives	101,654
15.255	Applied Science Program Cooperative Agreements Related to Coal Mining and Reclamation: From Washington State University	967
15.299	Miscellaneous Non-Major Grants	37,551
15.299	Miscellaneous Non-Major Grants: From Nat. Fish & Wild. Found.	9,916
15.524	Recreation Resources Management	3,704
15.608	Fish and Wildlife Management Assistance	200,216
15.608	Fish and Wildlife Management Assistance: From Univ. of Nebraska	8,868
15.634	State Wildlife Grants	3,047
15.642	Challenge Cost Share	32,760
15.649	Service Training and Technical Assistance (Generic Training)	76,196
15.650	Research Grants (Generic)	377,400
15.655	Migratory Bird Monitoring, Assessment and Conservation	39,032
15.657	Endangered Species Conservation - Recovery Implementation Funds	389,798
15.805	Assistance to State Water Resources Research Institutes	141,304
15.807	Earthquake Hazards Reduction Program	62,778
15.808	U.S. Geological Survey-Research and Data Acquisition	580,322

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15.809	National Spatial Data Infrastructure Competitive Cooperative Agreements Program	87
15.810	National Cooperative Geologic Mapping Program	242,933
15.811	Gap Analysis Program	13,061
15.812	Cooperative Research Units Program	1,134,524
15.815	National Land Remote Sensing Education Outreach and Research: From America View Inc.	91,087
15.819	Energy Cooperatives to Support the National Coal Resources Data System (NCRDS)	14,171
15.904	Historic Preservation Fund Grants-in-Aid	29,632
15.904	Historic Preservation Fund Grants-in-Aid: From University of Wyoming	4,994
15.915	Technical Preservation Services	7,332
15.915	Technical Preservation Services: From Idaho University	15,756
15.916	Outdoor Recreation: Acquisition, Development and Planning	170,302
15.921	Rivers, Trails and Conservation Assistance	57,100
15.921	Rivers, Trails and Conservation Assistance: From Univ of Wyoming NPS Res. Center	99
15.923	National Center for Preservation Technology and Training	20,681
15.999	Miscellaneous Non-Major Grants	2,036,102
TOTAL		\$7,298,959

DEPARTMENT OF JUSTICE

16.541	Part E - Developing, Testing and Demonstrating Promising New Programs	269,083
16.710	Public Safety Partnership and Community Policing Grants	1,425,499
16.727	Enforcing Underage Drinking Laws Program: From Oregon Dept of Human Serv.	17,612
16.746	Capital Case Litigation	2,421
TOTAL		\$1,714,615

DEPARTMENT OF STATE

19.500	Middle East Partnership Initiative (MEPI)	267,783
TOTAL		\$267,783

DEPARTMENT OF TRANSPORTATION

20.109	Air Transportation Centers of Excellence: From Aerodyne Research	18,634
20.200	Federal Highway Administration	3,123,892
20.200	Federal Highway Administration: From Univ. of Iowa	88,448
20.200	Federal Highway Administration: From Wisconsin DOT	14,371

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20.200	Federal Highway Administration: From Vanasse Hangen Brustlin	23,538
20.200	Federal Highway Administration: From Nat. Academies of Science	28,095
20.200	Federal Highway Administration: From Oregon Dept of Transportation	5,827
20.200	Federal Highway Administration: From Washington Dept of Transportation	4,684
20.205	Highway Planning and Construction	1,358,078
20.205	Highway Planning and Construction: From Center for Native Ecosystems	(3,309)
20.215	Highway Training and Education	164
20.219	Recreational Trails Program	36,378
20.514	Transit Planning and Research	786,734
20.520	Paul S. Sarbanes Transit in the Parks	590,575
20.601	Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants: From Univ. of Iowa	(7,651)
20.610	State Traffic Safety Information System Improvement Grants: From Westat	98,340
20.614	National Highway Transportation Safety Administration (NHTSA) Discretionary Safety Grants	86,170
20.614	National Highway Transportation Safety Administration (NHTSA) Discretionary Safety Grants: From Pacific Inst. for Research	10,764
20.701	University Transportation Centers Program: From Univ. of Alaska Fairbanks	12,152
20.704	RITA Hydrogen	409,747
20.762	Research Grants	647,946
20.999	Miscellaneous Non-Major Grants: From Aerodyne Research	12,206
TOTAL		\$7,345,783

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

43.001	Aerospace Education Services Program	4,336,256
43.001	Aerospace Education Services Program: From Univ. of California	28,545
43.001	Aerospace Education Services Program: From Lockheed Martin Corp.	995,122
43.001	Aerospace Education Services Program: From Smithsonian Astrophysical	570,437
43.001	Aerospace Education Services Program: From Univ. of Illinois	15,901
43.001	Aerospace Education Services Program: From Cal. Inst. of Technology	165,180
43.001	Aerospace Education Services Program: From ADNET Systems	20,074
43.001	Aerospace Education Services Program: From Univ. of North Dakota	33,402
43.001	Aerospace Education Services Program: From Johns Hopkins Univ.	36,125
43.001	Aerospace Education Services Program: From ADVR Inc.	2,345
43.001	Aerospace Education Services Program: From Univ. Corp. for Atmosh. Res.	20,701

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	AMOUNT
43.002 Technology Transfer	196,157
43.002 Technology Transfer: From Smithsonian Astrophysical	118,140
43.002 Technology Transfer: From Boeing Co.	15,223
43.002 Technology Transfer: From Carnegie Inst. of Wash.	41,535
43.002 Technology Transfer: From ADVR Inc.	71,273
43.999 Miscellaneous Non-Major Grants	1,723,696
43.999 Miscellaneous Non-Major Grants: From SW Research Inst.	59,729
43.999 Miscellaneous Non-Major Grants: From Pennsylvania State Univ.	35,592
43.999 Miscellaneous Non-Major Grants: From Ca Inst-Tech, JPL	337,265
43.999 Miscellaneous Non-Major Grants: From U OF CA, Irvine	12,575
43.999 Miscellaneous Non-Major Grants: From Univ. of North Dakota	61,632
43.999 Miscellaneous Non-Major Grants: From Univ. of Maryland	23,368
43.999 Miscellaneous Non-Major Grants: From The Woods Hole Research	77,058
TOTAL	\$8,997,331

NATIONAL ENDOWMENT FOR THE HUMANITIES

45.129 Promotion of the Humanities-Federal/State Partnership: From Hummanities Montana	7,900
45.169 Promotion of the Humanities - Office of Digital Humanities	10,543
TOTAL	\$18,443

NATIONAL SCIENCE FOUNDATION

47.041 Engineering Grants	1,889,422
47.041 Engineering Grants: From Bridger Photoincs	133,808
47.049 Mathematical and Physical Sciences	1,788,169
47.049 Mathematical and Physical Sciences: From Univ. of Calif. Santa Cruz	51
47.049 Mathematical and Physical Sciences: From Chief Dull Knife College	157,043
47.049 Mathematical and Physical Sciences: From Univ. of Maryland	34,375
47.049 Mathematical and Physical Sciences: From Assn. of Univ. for Research in Astronomy	156
47.050 Geosciences	1,543,609
47.050 Geosciences: From Univ. of Hawaii Manoa	1,988
47.050 Geosciences: From Univ. of Missouri	119,455
47.070 Computer and Information Science and Engineering	113,903
47.074 Biological Sciences	4,229,694

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47.074	Biological Sciences: From Harvard Univ.	14,585
47.074	Biological Sciences: From Washington State University	61,117
47.074	Biological Sciences: From Univ. of Nebraska - Med. Ctr	15,063
47.074	Biological Sciences: From Bridger Photoincs	(532)
47.074	Biological Sciences: From W VA University	4,139
47.074	Biological Sciences: From Villanova University	8,826
47.075	Social, Behavioral, and Economic Sciences	824,399
47.076	Education and Human Resources	2,325,988
47.076	Education and Human Resources: From Salish Kootenai College	333,506
47.076	Education and Human Resources: From Louisiana Tech	23,614
47.078	Polar Programs	723,394
47.078	Polar Programs: From Univ. of Colorado	224,935
47.079	International Science and Engineering (OISE)	244,733
47.079	International Science and Engineering (OISE): From UNLV	19,045
47.080	Office of Cyberinfrastructure	2,241,452
47.082	ARRA Trans-NSF Recovery Act Research Support	5,773,544
47.082	ARRA Trans-NSF Recovery Act Research Support: From Univ. of Hawaii Manoa	25,216
47.082	ARRA Trans-NSF Recovery Act Research Support: From Bridger Photoincs	(42)
47.999	Miscellaneous Non-Major Grants: From Portland State Univ.	6,455
TOTAL		\$22,881,110

SMALL BUSINESS ADMINISTRATION

59.000	Small Business Administration-Technical Assistance Grant	138,570
59.006	Business Development Program	161,489
59.058	Federal and State Technology Partnership Program	991
59.058	Federal and State Technology Partnership Program: From Defense Alliance of Minnesota	30,718
TOTAL		\$331,768

DEPARTMENT OF VETERANS AFFAIRS

64.018	Sharing Specialized Medical Resources	64,667
TOTAL		\$64,667

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2011

AMOUNT**ENVIRONMENTAL PROTECTION AGENCY**

66.034	Surveys, Studies, Invest., Demonst and Special Purp Act Relating to the Clean Air Act	373,777
66.034	Surveys, Studies, Invest., Demonst and Special Purp Act Relating to the Clean Air Act: From Health Effects Institute	21,441
66.419	Water Pollution Control-State and Interstate Program Support	171,601
66.436	Surveys, Studies, Investigations & Demonstrations of the Clean Water Act	32,760
66.460	Nonpoint Source Implementation Grants: From Clearwater Research Council	4,050
66.461	Regional Wetland Program Development Grants	287,640
66.461	Regional Wetland Program Development Grants: From NM Surface Water Quality	(624)
66.463	Water Quality Cooperative Agreements: From Project Wet Foundation	2,608
66.509	Science To Achieve Results (STAR) Research Program	148,857
66.509	Science To Achieve Results (STAR) Research Program: From UNINEW003	14,169
66.512	Regional Environmental Monitoring and Assessment Program	196,200
66.514	Science To Achieve Results (STAR) Fellowship Program	11,008
66.516	P3 Award: National Student Design Competition for Sustainability	11,100
66.605	Performance Partnership Grants: From N. Cheyenne Tribe	13,800
66.606	Surveys, Studies, Investigations and Special Purpose Grants: From Boise State University	136
66.708	Pollution Prevention Grants Program	208,526
66.709	Multi-Media Capacity Building Grants for States and Tribes	61,344
66.714	Pesticide Environmental Stewardship Regional Grants	27,118
66.716	Surveys, Studies, Investigations, Training Demonstrations and Educational Outreach	149,510
66.716	Surveys, Studies, Investigations, Training Demonstrations and Educational Outreach: From ADVR Inc.	1,974
66.717	Source Reduction Assistance	21,133
66.999	Miscellaneous Non-Major Grants: From Ruby Valley Conser. Dist.	420
66.999	Miscellaneous Non-Major Grants: From Fort Peck Tribe	1,037
66.999	Miscellaneous Non-Major Grants: From Tetra Tech, Inc.	2,043
66.999	Miscellaneous Non-Major Grants: From Missoula Area Econ. Development	6,285
	TOTAL	\$1,767,913

DEPARTMENT OF ENERGY

81.041	ARRA State Energy Program: From North American Power Group	236,266
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State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2011

AMOUNT

81.049	Office of Science Financial Assistance Program	1,333,828
81.049	Office of Science Financial Assistance Program: From Inland NW Research All.	36,021
81.049	Office of Science Financial Assistance Program: From Resonon Inc.	117,008
81.049	Office of Science Financial Assistance Program: From J Craig Venter Inst.	20,345
81.049	Office of Science Financial Assistance Program: From Resodyn Corporation	36,600
81.049	Office of Science Financial Assistance Program: From Los Alamos National Security	168,322
81.079	Regional Biomass Energy Programs: From South Dakota State Univ.	73,585
81.086	Conservation Research and Development: From Pacific States Marine	147,626
81.087	Renewable Energy Research and Development	778,639
81.087	Renewable Energy Research and Development: From Siemens Power Generation	113,099
81.087	Renewable Energy Research and Development: From Consort. for Plant Biotech. Res.	23,871
81.087	Renewable Energy Research and Development: From Inland NW Research All.	5
81.087	Renewable Energy Research and Development: From Arizona Geological Survey	103,940
81.089	Fossil Energy Research and Development	1,992,231
81.089	Fossil Energy Research and Development: From Crow Tribe	6,306
81.089	Fossil Energy Research and Development: From Little Big Horn College	4,362
81.089	Fossil Energy Research and Development: From Virginia Polytechnic Institute & State University	163,762
81.104	Office of Environmental Cleanup and Acceleration	9,893
81.112	Stewardship Science Grant Program: From Oregon Fish and Wild.	10,871
81.112	Stewardship Science Grant Program: From Gonzales Stroller Surv. LLC	30,773
81.122	ARRA Electricity Delivery and Energy Reliability, Research, Development and Analysis	254,994
81.122	Electricity Delivery and Energy Reliability, Research, Development and Analysis	186,254
81.122	Electricity Delivery and Energy Reliability, Research, Development and Analysis: From Western Electricity Coordinating Council	282,777
81.999	Miscellaneous Non-Major Grants: From Confed Tribes Of The Umatilla Indian Reser	54,837
81.999	Miscellaneous Non-Major Grants: From Battelle Energy Alliance	32,041
81.999	Miscellaneous Non-Major Grants: From Pacific Northwest National Laboratory	111,307
81.999	Miscellaneous Non-Major Grants: From UT- Battelle	57,869
81.999	Miscellaneous Non-Major Grants: From Idaho National Laboratory	19,386
81.999	Miscellaneous Non-Major Grants: From Inland NW Research All.	46,743

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2011

AMOUNT

81.999	Miscellaneous Non-Major Grants: From S M Stroller Corp.	88,363
	TOTAL	\$6,541,924

DEPARTMENT OF EDUCATION

84.016	Undergraduate International Studies and Foreign Language	60,273
84.017	International Research and Studies	11,382
84.031	Higher Education Institutional Aid: From Univ. of Cal Berkeley	37,817
84.116	Fund for the Improvement of Postsecondary Education	45,421
84.120	Minority Science and Engineering Improvement	53,601
84.133	National Institute on Disability and Rehabilitation Research	73,713
84.133	National Institute on Disability and Rehabilitation Research: From Univ of Kansas	38,143
84.133	National Institute on Disability and Rehabilitation Research: From Portland State Univ.	45,073
84.133	National Institute on Disability and Rehabilitation Research: From Baylor College of Medice	45,334
84.184	Safe and Drug-Free Schools and Communities - National Programs	168,491
84.299	Indian Education - Special Programs	272,211
84.373	Special Education -Technical Assistance on State Data Collection: From Meeting The Challenge	34,534
84.378	College Access Challenge Grant Program	195,405
	TOTAL	\$1,081,398

DEPARTMENT OF HEALTH AND HUMAN SERVICES

93.103	Food and Drug Administration Research	359
93.113	Biological Response to Environmental Health Hazards	1,336,487
93.113	Biological Response to Environmental Health Hazards: From University of Washington	6,045
93.136	Injury Prevention and Control Research and State and Community Based Programs	116,739
93.136	Injury Prevention and Control Research and State and Community Based Programs: From MT Sinai School - Medicine	37,151
93.136	Injury Prevention and Control Research and State and Community Based Programs: From N. Cheyenne Tribe	58,607
93.172	Human Genome Research	176,420
93.172	Human Genome Research: From Stanford University	233,810
93.178	Nursing Workforce Diversity	4,665
93.184	Disabilities Prevention: From Univ. of Illinois	6,133
93.206	Human Health Studies Applied Research and Development	8,858

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2011

AMOUNT

93.213	Research and Training in Complementary and Alternative Medicine	1,225,546
93.231	Epidemiology Cooperative Agreements: From RMTEC	51,319
93.242	Mental Health Research Grants	654,682
93.243	Substance Abuse and Mental Health Services-Projects of Regional and National Significance: From Univ. of Missouri	60,921
93.247	Advanced Education Nursing Grant Program	365,922
93.262	Occupational Safety and Health Program: From University of Utah	2,884
93.276	Drug-Free Communities Support Program Grants: From Wyoming Dept.of Health	329,396
93.279	Drug Abuse Research Programs	331,602
93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance	133,173
93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance: From Assoc. University Centers Dist.	270,022
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health	4,701
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health: From Univ. of Illinois	32,758
93.301	Small Rural Hospital Improvement Grant Program	414,280
93.307	Minority Health and Health Disparities Research	1,171,401
93.307	Minority Health and Health Disparities Research: From Little Big Horn College	104,739
93.310	Trans-NIH Research Support: From Ateris Tech, LLC	3,718
93.359	Nurse Education, Practice and Retention Grants: From University of Washington	3,480
93.361	Nursing Research	149,757
93.389	National Center for Research Resources	9,684,783
93.389	National Center for Research Resources: From ZDye Corp.	177,257
93.389	National Center for Research Resources: From Resonon Inc.	16,244
93.389	National Center for Research Resources: From University of Washington	10
93.393	Cancer Cause and Prevention Research	449,167
93.393	Cancer Cause and Prevention Research: From Miriam Hospital	20,583
93.395	Cancer Treatment Research	224,453
93.395	Cancer Treatment Research: From Vanderbilt Univ.	41,752
93.395	Cancer Treatment Research: From Univ. of Calif. San Diego	26,146
93.395	Cancer Treatment Research: From SensoPath Technologies	20,547
93.396	Cancer Biology Research	85,375
93.509	Affordable Care Act (ACA) State Health Care Workforce Development Grants	52,318

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2011

AMOUNT

93.568	Low Income Home Energy Assistance: From National Center for Appropriate Technology	42
93.631	Developmental Disabilities Projects of National Significance	47,979
93.701	ARRA Trans-NIH Recovery Act Research Support	7,454,332
93.701	ARRA Trans-NIH Recovery Act Research Support: From Harvard Univ.	252,682
93.701	ARRA Trans-NIH Recovery Act Research Support: From Inst. of Translational Health Sci.	56,781
93.702	ARRA National Center for Research Resources, Recovery Act Construction Support	1,054,286
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	358,770
93.824	Basic/Core Area Health Education Centers	1,363,743
93.824	Basic/Core Area Health Education Centers: From MT Health Res. & Ed. Found.	3,149
93.837	Heart and Vascular Diseases Research	348,590
93.837	Heart and Vascular Diseases Research: From Gramercy Res. Group	7,977
93.838	Lung Diseases Research	862,431
93.846	Arthritis, Musculoskeletal and Skin Diseases Research	185,853
93.847	Diabetes, Endocrinology and Metabolism Research	(63)
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	2,013,657
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders: From Yale University	135,866
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders: From Univ. of California	78,446
93.855	Allergy, Immunology and Transplantation Research	2,874,280
93.855	Allergy, Immunology and Transplantation Research: From Indiana University	26,161
93.855	Allergy, Immunology and Transplantation Research: From Co. State Univ.	22
93.855	Allergy, Immunology and Transplantation Research: From Sorrento Therapeutics	132,038
93.855	Allergy, Immunology and Transplantation Research: From Univ. of Connecticut	63,051
93.856	Microbiology and Infectious Diseases Research	99,358
93.856	Microbiology and Infectious Diseases Research: From Co. State Univ.	1,062,052
93.859	Biomedical Research and Research Training	2,184,602
93.859	Biomedical Research and Research Training: From Case Western Univ.	20,835
93.859	Biomedical Research and Research Training: From Ohio University	55,973
93.859	Biomedical Research and Research Training: From Univ. of Connecticut	60,828
93.859	Biomedical Research and Research Training: From Univ. of Washington	150,869
93.865	Child Health and Human Development Extramural Research	42,357

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2011

		AMOUNT
93.865	Child Health and Human Development Extramural Research: From Medical College of Georgia	25,383
93.866	Aging Research	306,291
93.867	Vision Research: From University of Rchester	138,973
93.912	Rural Outreach-Rural Network Developmental Program	119,095
93.970	Health Professions Recruitment Program for Indians	320,637
93.974	Family Planning Service Delivery Improvement Research Grants	203,450
93.999	Miscellaneous Non-Major Grants	37,479
TOTAL		\$40,242,465
 HOMELAND SECURITY		
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants: From Butte Silver Bow	1,833
TOTAL		\$1,833
 UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT		
98.001	USAID Foreign Assistance for Programs Overseas: From Oregon State Univ.	130,059
TOTAL		\$130,059
TOTAL RESEARCH AND DEVELOPMENT CLUSTER		\$128,023,342
TOTAL EXPENDITURES OF FEDERAL AWARDS		\$3,130,787,819

**STATE OF MONTANA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Note 1. Basis of Accounting

The assistance amounts presented in the accompanying Schedule of Expenditures of Federal Awards of the state of Montana are generally expenditures or reimbursement revenues recorded on the modified accrual basis of accounting. This basis recognizes expenditures in the accounting period in which the liability is incurred and revenues when measurable and available. Assistance amounts reported on a basis other than modified accrual are discussed below.

Enterprise Fund Activity

The Unemployment Insurance, Section 8 Voucher and Section 8 Project-based programs are accounted for as enterprise fund activity. Enterprise funds use the full accrual basis of accounting.

Food Distribution Program

The amount reported for Food Distribution programs (CFDA #10.550, #10.567, #10.569, #10.570 and #10.565 and #93.053) represents the dollar value of food commodities distributed to eligible recipients during the year. The U.S. Department of Agriculture provides the current value of the commodities used by the state to compute the amount reported. The amount of funds received to administer the program is also included in the reported amount. Montana also distributes food commodities to other states in the western region of the United States, the value of which is excluded from the reported amounts. During fiscal year 2011, Montana distributed \$363,224 of food commodities under CFDA #10.567 to other states.

The state of Montana distributed \$8,394,712 in commodities in fiscal year 2011. The value at June 30, 2011 of commodities stored at the state's warehouse is \$2,292,412 for which the state is liable in the event of loss. The state has insurance to cover this liability.

Supplemental Nutrition Assistance Program

The reported expenditures for benefits under the Supplemental Nutrition Assistance Program (SNAP) (CFDA No. 10.551) are supported by both regularly appropriated funds and incremental funding made available under section 101 of the American Recovery and Reinvestment Act of 2009. The portion of total expenditures for SNAP benefits that is supported by Recovery Act funds varies according to fluctuations in the cost of the Thrifty Food Plan, and to changes in participating households' income, deductions, and assets. This condition prevents USDA from obtaining the regular and Recovery Act components of SNAP benefits expenditures through normal program reporting processes. As an alternative, USDA has computed a weighted average percentage to be applied to

the national aggregate SNAP benefits provided to households in order to allocate an appropriate portion thereof to Recovery Act funds. This methodology generates valid results at the national aggregate level but not at the individual state level. Therefore, we cannot validly disaggregate the regular and Recovery Act components of our reported expenditures for SNAP benefits. At the national aggregate level, however, Recovery Act funds account for approximately 15 percent of USDA's total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2009.

Federal Surplus Personal Property

In accordance with General Service Administration guidelines, the amount presented for Donations of Federal Surplus Personal Property (CFDA #39.003) is 23.3 percent of the original acquisition cost of the property.

Capitalization Grants for State Revolving Funds

The amount presented for the Capitalization Grants for Water Pollution Control State Revolving Fund (CFDA #66.458) represents federal contributions, plus the administrative costs expended as of June 30, 2011. The amount of loans outstanding as of June 30, 2011 in the Water Pollution Control Revolving Fund Program is \$198,190,786.

The amount presented for the Drinking Water State Revolving Fund Program (CFDA #66.468) represents federal contributions, plus administrative costs expended as of June 30, 2011. The amount of loans outstanding for the program as of June 30, 2011 is \$111,534,405.

Special Economic Development and Adjustment Assistance Program

The amount presented for the Special Economic Development and Adjustment Assistance Program (CFDA #11.307) represents federal contributions, plus the administrative costs expended as of June 30, 2011. The amount of loans outstanding as of June 30, 2011 is \$347,020 in non-ARRA funds and \$2,565,470 in ARRA funds.

Temporary Assistance to Needy Families Loan Program

The Temporary Assistance to Needy Families (CFDA #93.558) contributes to a housing loan program. The amount of housing loans outstanding as of June 30, 2011 is \$605,896.

Federal Family Education Loans

The Montana Guaranteed Student Loan Program (MGSLP) guaranteed no new loans for the Federal Family Education Loans (CFDA #84.032) program during FY2011. The outstanding loan balance (including principal, accrued interest and collection cost) of loans guaranteed in previous years for which the federal government has imposed continuing compliance requirement was \$64,551,557 at June 30, 2011. The dollar amount of Default Aversion Fees transferred from the Federal Fund to the Agency's Operating Fund during FY2011 was \$393,563 (net). In addition, MGSLP received or accrued revenue from the U.S.

Department of Education in FY2011 of \$28,288,397 for reinsurance to pay claims for loans due to death, disability, default and bankruptcy of the debtor.

Federal Perkins Loan Program – Federal Capital Contributions

The amount reported for the Federal Perkins Loan Program – Federal Capital Contributions (CFDA #84.038) represents federal contributions, plus the administrative costs, plus interest expended as of June 30, 2011. The amount of loans outstanding as of June 30, 2011 is \$33,008,728.

Nursing Student Loan Program

The amount of loans outstanding for the Nursing Student Loan Program (CFDA # 93.364) as of June 30, 2011 is \$1,785,474.

Nursing Faculty Loan Program

The amount of loans outstanding for the Nursing Faculty Loan Program (CFDA # 93.264) as of June 30, 2011 is \$131,802.

Minority Health and Health Disparities Research

The amount reported for the Minority Health and Health Disparities (CFDA #93.307) program includes the initial endowment and interest. The initial endowment was \$8,437,500.

Childhood Immunization Grants

The amount reported for the Childhood Immunization Grants (CFDA 93.268) includes the dollar value of vaccine doses received during FY10. The state used the CDC price list to calculate the value of doses received. During fiscal year 2011, Montana received 201,629 vaccine doses valued at \$7,965,715. In addition, Montana distributed no doses of H1N1 from CDC during fiscal year 2011.

Tongue River –Northern Cheyenne Tribal Loan

The Northern Cheyenne Tribe and the Department of Natural Resources and Conservation entered into an agreement on July 1, 1994 in which the tribe agreed to loan the state of Montana \$11,300,000 federal funds appropriated as part of the Northern Cheyenne Indian Reserved Water Rights Settlement. The loan is to assist the state in financing costs of the Tongue River Dam project. No expenditures of tribal loan funds were incurred on project costs during FY 2011. The amount of the loan outstanding as of June 30, 2011 is \$7,823,077.

Middle Creek Dam Rehabilitation Project Loan

The Department of Natural Resources and Conservation and the U.S Department of the Interior, Bureau of Reclamation (BOR) entered into an agreement on September 21, 1990. The BOR agreed to loan the state of Montana "...a sum of money not to exceed the lesser of (1) \$3,023,925 plus reimbursable interest during construction or (2) the actual cost of the project including reimbursable interest during construction..." The total loan repayable is \$2,990,129 and interest during construction is \$281,857. The amount, as of

June 30, 2011, of loan outstanding is \$2,331,957 and of interest during construction outstanding is \$200,626.

Note 2. Type A Federal Programs

The Single Audit Act Amendments of 1996 and OMB Circular A-133 establish the level of federal award expenditures to be used in defining Type A and Type B federal assistance programs.

Type A programs for the state of Montana are those which total federal awards expenditures equal or exceed \$19,892,405 for the biennial period.

Note 3. CFDA #

The CFDA # assigned for each federal program listed in the Schedule of Expenditures of Federal Awards was based upon agency agreements with the federal government and the Catalog of Federal Domestic Assistance in effect during the audit period.

Programs not assigned a CFDA # in the Catalog of Federal Domestic Assistance were assigned a CFDA # in the format **.999. The first two digits represent the federal agency, the third digit represents the division within the federal agency. Also see footnote 10.

Research is defined as a systematic study directed toward fuller scientific knowledge or understanding of the subject studied. The term research also includes activities involving the training of individuals in research techniques where such activities utilize the same facilities as other research and development activities and where such activities are not included in the instruction function. Development is the systematic use of knowledge and understanding gained from research directed toward the production of useful materials, devices, systems, or methods, including design and development of prototypes and processes.

Note 4. Federal Excess Personal Property

The state of Montana receives Federal Excess Personal Property (FEPP). The title to this property remains with the federal agency. In accordance with General Services Administration guidelines, the amount presented in the FEPP is 23.3 percent of the original acquisition cost of the property. The following is a list of the FEPP received by the state of Montana. The negative amount reflects property sold, and title transferred at public sale.

CFDA # Program	FY 11 Amount	Inventory
10.203 Payments to Ag. Exp. Station	\$10,718	\$185,676
10.500 Cooperative Extension Service	\$0	\$8,632
10.664 Cooperative Forestry Assistance	\$6,785	\$5,965,608

10.999 Agriculture Misc. Non. Major	\$0	\$160,738
12.999 Defense Misc. Non. Major	\$0	\$53,590
43.999 NASA Misc. Non. Major	\$0	\$664,050
47.999 NSF Misc. Non. Major	\$(13,857)	\$266,760

Note 5. Department of Defense (DOD) Firefighting Property (FFP)

The Department of Natural Resources (DNRC) receives DOD Firefighting Property. The title to this property is transferred to the DNRC. In accordance with OMB guidelines, the amounts are presented at fair market value at time of receipt by DNRC. This was determined to be 14% of the original acquisition cost of the property. The following is the value of FFP received by the state of Montana.

CFDA # Program	FY 11 Amount	Inventory
12.999 DOD Firefighter Program	\$ 80,918	\$ 471,599

Note 6. Books for the Blind and Physically Handicapped:

The Montana State Library receives “talking book” machines, cassette books, accessories and magazines from the federal government under the Blind and Physically Handicapped program (CFDA #42.001). These items are then distributed to provide library services to blind and physically handicapped individuals. The federal government retains title to these items. The approximate value of the items in inventory (not distributed to individuals) at June 30, 2011, was \$1,259,853. The accompanying Schedule of Expenditures of Federal Awards does not include this amount.

Note 7. Unemployment Benefits

The unemployment compensation system is a federal-state partnership. State unemployment insurance laws must conform to certain provisions of the federal law. Federal funds are expended for administrative costs. State unemployment taxes must be deposited into a state account in the Federal Unemployment Trust Fund, and are used only to pay benefits. State Unemployment Insurance (UI) funds, as well as federal funds, are included on the Schedule of Expenditures of Federal Awards (SEFA).

The following schedule provides a breakdown of the state and federal portions of the total expenditures recorded for the Unemployment Insurance Program (CFDA #17.225).

State UI Expenditures	\$161,469,697
Federal UI Expenditures	<u>133,137,058</u>
Total	\$294,606,755

Note 8. Subgrants to State Agencies

Federal assistance transferred from one Montana state agency to another Montana state agency is shown only once on the Schedule of Expenditures of Federal Awards.

Federal assistance received from non-state sources which are considered subgrants by the awarding agency are treated as pass through grants to the state and are reported on the Schedule of Expenditures of Federal Awards.

Note 9. Pass through Awards to Non-State Entities

The following is a list of federal funds passed through from the state of Montana to non-state entities for fiscal year 2011.

<i>CFDA Number</i>	<i>Program Title</i>	<i>Amount Provided To Subrecipient</i>
10.163	Market Protection and Promotion	100,691
10.169	Specialty Crop Block Grant Program	112,226
10.200	Grants for Agricultural Research, Special Research Grants	304,643
10.206	Grants for Agricultural Research & Competitive Research Grants	20,465
10.210	Food and Agricultural Sciences National Needs Graduate Fellowship Grants	32,687
10.217	Higher Education Challenge Grants	129,688
10.303	Integrated Programs	37,151
10.310	Agriculture and Food Research Initiative (AFRI)	33,126
10.500	Cooperative Extension Service	64,207
10.550	Food Donation	3,038,406
10.553	School Breakfast Program	6,325,319
10.555	National School Lunch Program	23,677,432
10.556	Special Milk Program for Children	18,046
10.557	Child and Adult Care Food Program	4,063,787
10.558	Child and Adult Care Food Program	861,368
10.559	Summer Food Program for Children	1,198,815
10.561	State Administrative Matching Grants for Food Stamp Program	985,168
10.567	Food Distribution Program on Indian Reservations	1,482,145
10.568	Emergency Food Assistance Program (Administrative Costs)	111,644
10.572	WIC Farmers' Market Nutrition Program (FMNP)	88,191
10.579	ARRA Child Nutrition Discretionary Grants Limited Availability	20,685
10.582	ARRA Emergency Food Assistance Program (Administrative Costs)	1,087,956
10.652	Forestry Research	45,072
10.664	Cooperative Forestry Assistance	3,284,143
10.665	Schools and Roads-Grants to States	23,345,258
10.683	National Fish and Wildlife Foundation	30,000
10.688	ARRA Recovery Act of 2009: Wildland Fire Management	3,292,154
11.555	Public Safety Interoperable Communications Grant Program	3,753,482
11.557	ARRA Broadband Technology Opportunities Program (BTOP)	72,664
11.611	Manufacturing Extension Partnership	5,180
12.002	Procurement Technical Assistance For Business Firms	841,855
12.114	Collaborative Research and Development	230,871
12.300	Basic and Applied Scientific Research	195,842
12.420	Military Medical Research and Development	18,491
12.630	Basic, Applied, and Advanced Research in Science and Engineering	5,400
12.800	Air Force Defense Research Sciences Program	189,887
12.999	Defense - Miscellaneous	24,703
14.228	Community Development Block Grant/State's Program	6,405,473
14.239	Home Investment Partnerships Program	2,422,736
15.233	ARRA Forests and Woodlands Resource Management	32,078
15.242	National Fire Plan - Rural Fire Assistance	585,510
15.649	Miscellaneous Non-Major Grants	6,075
15.650	Research Grants (Generic)	45,000
15.812	Cooperative Research Units Program	24,154
15.904	Historic Preservation Fund Grants-In-Aid	89,755
15.916	Outdoor Recreation-Acquisition, Development and Planning	269,042
15.929	ARRA Save America's Treasures	15,616
15.999	Miscellaneous Department of the Interior	153,517
16.017	Sexual Assault Services Formula Program	137,367
16.523	Juvenile Accountability Incentive Block Grants	348,636
16.540	Juvenile Justice and Delinquency Prevention: Allocation to States	493,878
16.548	Title V Delinquency Prevention Program	30,386
16.575	Crime Victim Assistance	1,718,971
16.588	Violence Against Women Formula Grant	1,109,459
16.593	Residential Substance Abuse Treatment for State Prisoners	50,613
16.609	Community Prosecution and Project Safe Neighborhoods	65,088
16.727	Enforcing Underage Drinking Laws Program	309,775
16.738	Crime Victim Assistance	843,740
16.744	Anti-Gang Initiative	31,000
16.801	ARRA Violence Against Women Formula Grants	40,101
16.803	Violence Against Women Formula Grants	468,245
17.235	ARRA Youth Activities	949,867
17.258	WIA Adult Program	633,658
17.259	WIA Youth Activities	1,870,568
17.267	WIA Incentive Grants -Section 503 Grants to States	-11,784
17.275	Enforcing Underage Drinking Laws Program	2,484,154
20.200	Federal-Aid Highways-Emergency Relief	3,000
20.205	Highway Planning and Construction	12,580,467
20.219	Recreational Trails	1,323,483

<i>CFDA Number</i>	<i>Program Title</i>	<i>Amount Provided To Subrecipient</i>
20.500	Federal Transit - Capital Investment Grants	601,059
20.505	Federal Transit - Metropolitan Planning Grants	404,015
20.509	Formula Grants for Other Than Urbanized Areas	11,611,406
20.513	Capital Assistance Program for the Elderly and Persons with Disabilities	268,562
20.514	Transit Planning and Research	454,940
20.515	State Planning and Research	2,303
20.516	Job Access Reverse Commute	669,801
20.520	Paul S. Sarbanes Transit in the Parks	181,270
20.600	State and Community Highway Safety	779,382
20.601	Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	402,068
20.602	Occupant Protection	62,118
20.611	Incentive Grant Program to Prohibit Racial Profiling	12,932
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	49,967
20.704	Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	92,344
39.011	Election Reform Payments	9,867
43.001	Aerospace Education Services Program	573,340
43.999	Miscellaneous NASA	31,786
45.025	Promotion of the Arts-Partnership Agreements	504,444
45.310	State Library Program	13,625
47.041	Engineering Grants	27,271
47.049	Mathematical and Physical Sciences	93,545
47.050	Geosciences	1,126
47.074	Biological Sciences	279,190
47.075	Social, Behavioral, and Economic Sciences	12,890
47.076	Education and Human Resources	610,992
47.078	Miscellaneous Non-Major Grants	152,147
47.079	International Science and Engineering (OISE)	56,757
47.080	Office of Cyberinfrastructure	110,608
47.082	ARRA Trans-NSF Recovery Act Research Support	273,121
59.000	SBDC/Microloan	107,925
66.034	Surveys, Studies, Research, Invest., Demon., and Special Purpose Act. Relating to the Clean Air Act	21,441
66.512	Regional Environmental Monitoring and Assessment Program (REMAP) Research Projects	89,915
66.716	Surveys, Studies, Investigations, Training Demonstrations and Educational Outreach	46,192
81.041	ARRA State Energy Program	99,865
81.049	Office of Science Financial Assistance Program	216,785
81.087	Renewable Energy Research and Development	135,571
81.089	Fossil Energy Research and Development	1,254,894
81.122	Miscellaneous Non-Major Grants	213,987
84.002	Adult Education-State Grant Program	1,138,541
84.010	Title I Grants to Local Educational Agencies	41,556,429
84.011	Migrant Education-Basic State Grant Program	888,251
84.013	Title I Program for Neglected and Delinquent Children	103,920
84.027	Special Education - Grants to States	30,410,903
84.048	Vocational Education - Basic Grants to States	3,546,362
84.069	Leveraging Educational Assistance Partnership	174,326
84.133	National Institute on Disability and Rehabilitation Research	130,043
84.144	Migrant Education - Coordination Program	85,719
84.173	Special Education - Preschool Grants	1,255,416
84.186	Safe & Drug Free Schools and Communities - State Grants	432,014
84.196	Education for Homeless Children and Youth	162,505
84.213	Even Start - State Educational Agencies	269,374
84.215	Fund for the Improvement of Education	602
84.243	Tech-Prep Education	126,670
84.287	Twenty-First Century Community Learning Centers	5,345,533
84.318	Education Technology State Grants	815,288
84.323	Special Education-State Program Improvement Grants for Children with Disabilities	57,302
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	1,510,533
84.357	Reading First State Grants	43,475
84.358	Rural Education	260,338
84.365	English Language Acquisition Grants	385,202
84.366	Mathematics and Science Partnerships	983,376
84.367	Improving Teacher Quality State Grants	12,898,301
84.377	School Improvement Grants	103,483
84.378	College Access Challenge Grant Program	442,750
84.386	ARRA Education Technology State Grants, Recovery Act	1,787,122
84.387	ARRA Education for Homeless Children and Youth, Recovery Act	48,925
84.389	ARRA Title I Grants to Local Educational Agencies, Recovery Act	15,451,165
84.391	ARRA Special Education Grants to States, Recovery Act	15,132,102
84.392	ARRA Special Education - Preschool Grants, Recovery Act	530,304

<i>CFDA Number</i>	<i>Program Title</i>	<i>Amount Provided To Subrecipient</i>
84.394	ARRA State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	36,772,774
84.397	ARRA State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	4,835,386
84.410	Education Jobs Fund	30,737,469
90.401	Help America Vote Act Requirements Payments	19,177
93.003	Public Health and Social Services Emergency Fund	144,463
93.041	Special Programs for the Aging -Title VII, Chapter 3: Prevention	25,028
93.042	Special Programs for the Aging -Title VII, Chapter 2: Long Term Care	82,767
93.043	Special Programs for the Aging - Title III, Part D: Disease Prevention	105,131
93.044	Special Programs for the Aging - Title III, Part B: Supportive Services	1,458,471
93.045	Special Programs for the Aging - Title III, Part C: Nutrition Services	2,947,640
93.048	Special Programs for the Aging - Title IV & and Title II - Discretionary Proj.	208,956
93.052	Nation Family Caregiver Support Program	697,420
93.053	Nutrition Services Incentive Program	931,774
93.071	Medicare Enrollment Assistance Program	2,679
93.104	Comprehensive Community Mental Health Services for Children	53,112
93.110	Maternal and Child Health Federal Consolidated Programs	88,910
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	23,718
93.126	Small Business Innovation Research	61,792
93.130	Primary Care Services Resource Coordination and Development	32,900
93.135	Centers for Research and Demonstration for Health Promotion and Disease Prevention	727,031
93.150	Projects for Assistance in Transition from Homelessness (PATH)	275,492
93.165	Grants to States for Loan Repayment Program	134,231
93.217	Family Planning Services	1,868,653
93.236	Grants for Dental Public Health Residency Training	50,000
93.241	State Rural Hospital Flexibility Program	568,959
93.242	Mental Health Research Grants	81,469
93.243	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	2,141,577
93.268	Immunization Grants	433,824
93.276	Drug-Free Communities Support Program Grants	128,209
93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance	5,342,029
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health	4,464
93.301	Small Rural Hospital Improvement Grants	393,578
93.307	Minority Health and Health Disparities Research	152,289
93.389	National Center for Research Resources	637,573
93.393	Minority Health and Health Disparities Research	113,824
93.416	ARRA - Health Careers Opportunity Program	10,000
93.511	Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	15,280
93.518	Affordable Care Act - Medicare Improvements for Patients and Providers	26,734
93.556	Promoting Safe and Stable Families	589,020
93.558	Temporary Assistance for Needy Families (TANF)	3,035,687
93.566	Refugee and Entrant Assistance-State Administered Programs	10,904
93.568	Low-Income Home Energy Assistance	1,462,191
93.575	Child Care and Development Block Grant	5,431,788
93.590	Community-Based Family Resource and Support Grants	202,568
93.597	Grants to States for Access and Visitation Programs	98,566
93.599	Chafee Education and Training Vouchers Program (ETV)	187,940
93.600	Head Start	64,781
93.617	Voting Access for Individuals with Disabilities-Grants to States	102,572
93.630	Developmental Disabilities Basic Support and Advocacy Grants	416,068
93.631	Developmental Disabilities Projects of National Significance	13,000
93.658	Foster Care Title IV-E	2,170,300
93.671	Family Violence Prevention and Services/Grants for Battered Women	786,045
93.674	Chafee Foster Care Independent Living	40,215
93.701	ARRA Trans-NIH Recovery Act Research Support	792,519
93.705	ARRA Aging Home-Delivered Nutrition Services for States	79,999
93.707	ARRA Aging Congregate Nutrition Services for States	162,500
93.713	ARRA - Child Care and Development Block Grant	331,795
93.721	ARRA - Health Information Technology Professionals in Health Care	97,703
93.723	ARRA - Prevention and Wellness-State,	262,193
93.767	State Children's Insurance Program	344,046
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	194,197
93.824	ARRA Americorps	822,993
93.855	Allergy, Immunology and Transplantation Research	167,204
93.859	Biomedical Research and Research Training	134,237
93.917	HIV Care Formula Grants	320,040
93.940	HIV Prevention Activities-Health Department Based	934,944
93.959	Block Grants for Prevention and Treatment of Substance Abuse	1,211,619
93.969	Geriatric Education Centers	31,990
93.974	Family Planning Service Delivery Improvement Research Grants	16,422

<i>CFDA Number</i>	<i>Program Title</i>	<i>Amount Provided To Subrecipient</i>
93.991	Preventive Health and Health Services Block Grant	347,564
93.994	Maternal and Child Health Services Block Grant to the States	1,168,675
94.004	Learn and Serve America - School and Community Based Program	15,397
94.006	Americorps	3,513,487
94.007	Planning and Program Development Grants	3,308
97.001	Pilot Demonstration or Earmarked Projects	167,761
97.036	Public Assistance Grants	783,473
97.039	Hazard Mitigation Grant	20,066
97.042	Emergency Management Performance Grants	1,798,618
97.046	Fire Management Assistance Grant	26,219
97.047	Pre-Disaster Mitigation	167,574
97.067	Homeland Security Grant Program	4,299,365
97.078	Buffer Zone Protection Plan (BZPP)	245,575
TOTAL		396,672,114

Note 10. Federal Awards not having a CFDA Number

The following schedule contains contract or grant numbers associated with awards that did not have a CFDA number and were assigned a XX.999 number in the Schedule of Expenditures of Federal Awards. Not all XX.999 reported on the SEFA had a grant or contract number.

Schedule of Unknown Federal CFDA Numbers (XX.999)

Federal Agency	State Agency	Contract or Grant Number	Amount
Peace Corp (08)			
	Univ. of Montana - Missoula	PC-09-8-078	1,953
	Univ. of Montana - Missoula	PC-10-8-055	9,064
Department of Agriculture (10)			
	Montana Tech - Butte	05-CS-11010800-010	2,136
	Montana Tech - Butte	65-0325-09-034	6,411
	Montana Tech - Butte	09-CS-11011400-019	9,700
	Montana Tech - Butte	65-0325-4-104	2,500
	Univ. of Montana - Western	09-CS-11011100-035	300
	Labor and Industry	12-25-A-5094	6,425
	Montana State Univ. - Bozeman	2007-0079-001	-10
Department of Defense (12)			
	Univ. of Montana - Missoula	W912HZ-08-2-0006	331
	Univ. of Montana - Missoula	W912DY-09-2-0001	1,947
	Univ. of Montana - Missoula	W912DW-11-P-0068	3,051
	Montana Tech - Butte	W9113M-09-C-0138	174,630
	Montana Tech - Butte	N00014-08-D-0758	131,463
	Montana Tech - Butte	N00014-08-D-0758	219,870
	Montana State Univ. - Bozeman	NRO 000-08-C-0158	19,607
	Montana State Univ. - Bozeman	USAF:FA8650-10-C-1722	67,531
	Montana State Univ. - Bozeman	S2-10-0070-01	119,356
	Montana State Univ. - Bozeman	100-SWW-T26107/PO1061970	49,849
	Montana State Univ. - Bozeman	P875-4	22,732
Department of the Interior (15)			
	Montana State Univ. - Bozeman	J9504090019	-220
	Montana State Univ. - Bozeman	J1380106001/H1200090004	4,735
	Montana State Univ. - Bozeman	P11AT00109 MSU-234/H1200090004	3,546
	Univ. of Montana - Missoula	J8400060012, UMT-94	1,945
	Univ. of Montana - Missoula	J2380060105, UMT-106	52,603
	Univ. of Montana - Missoula	J2303060026, UMT-113	10,819
	Univ. of Montana - Missoula	J1434060050, UMT-111	344
	Univ. of Montana - Missoula	J1435050094, UMT-128	4,042
	Univ. of Montana - Missoula	J1242077019, UMT-143	1,587
	Univ. of Montana - Missoula	J2303070096, UMT-145	5,934
	Univ. of Montana - Missoula	J2310080035, UMT-153	4,136
	Univ. of Montana - Missoula	J2030080012, UMT-155, 206	6,041
	Univ. of Montana - Missoula	J1435080074, UMT-157, 199	7,606
	Univ. of Montana - Missoula	J8755080013, UMT-166, 178	3,014
	Univ. of Montana - Missoula	J1571060508, UMT-156	12,814
	Univ. of Montana - Missoula	J1434080044, UMT-169	25,905
	Univ. of Montana - Missoula	J1434080043, UMT-170	26,260
	Univ. of Montana - Missoula	J1433080022, UMT-176	6,254
	Univ. of Montana - Missoula	J1580080588, UMT-177, 203	16,055
	Univ. of Montana - Missoula	J1580080549, UMT-180	470
	Univ. of Montana - Missoula	J1242080019, UMT-184	2,785
	Univ. of Montana - Missoula	J1586080018, UMT-179	3,801
	Univ. of Montana - Missoula	J1242080026, UMT-189	10,790
	Univ. of Montana - Missoula	J1434080088, UMT-188	4,083

Schedule of Unknown Federal CFDA Numbers (XX.999)

Federal Agency	State Agency	Contract or Grant Number	Amount
	Univ. of Montana - Missoula	J2303080037, UMT-187	1,244
	Univ. of Montana - Missoula	J1212080053, UMT-191	7,123
	Univ. of Montana - Missoula	J1242067023, UMT-115	2,818
	Univ. of Montana - Missoula	J1580090083, UMT-193	647
	Univ. of Montana - Missoula	J1212080059, UMT-192	11,471
	Univ. of Montana - Missoula	J1434080053	54,662
	Univ. of Montana - Missoula	J1242090014, UMT-204	416
	Univ. of Montana - Missoula	J9560090096, UMT-202	15,124
	Univ. of Montana - Missoula	J7580090176, UMT-211	1,529
	Univ. of Montana - Missoula	J1242090017, UMT-212	4,969
	Univ. of Montana - Missoula	J1580090409, UMT-209	6,280
	Univ. of Montana - Missoula	J2310091050, UMT-213	3,861
	Univ. of Montana - Missoula	J1580090444, UMT-218	4,518
	Univ. of Montana - Missoula	J2310091046, UMT-208	89,167
	Univ. of Montana - Missoula	J1242090038, UMT-222	1,641
	Univ. of Montana - Missoula	J2360097106	8,863
	Univ. of Montana - Missoula	J8750090352, UMT-205	5,211
	Univ. of Montana - Missoula	J1242090039, UMT-223	3,801
	Univ. of Montana - Missoula	J1580090464, UMT-215	25,149
	Univ. of Montana - Missoula	J2119090014, UMT-219	-109
	Univ. of Montana - Missoula	J6490090170, UMT-220	6,948
	Univ. of Montana - Missoula	J1434090021, UMT-200	6,637
	Univ. of Montana - Missoula	J1434090054, UMT-221	425
	Univ. of Montana - Missoula	J1242090045, UMT-225	1,607
	Univ. of Montana - Missoula	J1242090050, UMT-228	1,901
	Univ. of Montana - Missoula	J2120090015, UMT-214	2,000
	Univ. of Montana - Missoula	J1242090048, UMT-226	24,998
	Univ. of Montana - Missoula	J1242090049, UMT-227	2,304
	Univ. of Montana - Missoula	J1580090465, UMT-214	2,667
	Univ. of Montana - Missoula	J986509R119, UMT-210	15,108
	Univ. of Montana - Missoula	J2303090040, UMT-224	37,510
	Univ. of Montana - Missoula	J1434100015, UMT-229	48,101
	Univ. of Montana - Missoula	J1242100004, UMT-230	5,000
	Univ. of Montana - Missoula	J1580100211, UMT-233	151,402
	Univ. of Montana - Missoula	J1580100301, UMT-234	39,173
	Univ. of Montana - Missoula	J7481100013, UMT-232	5,113
	Univ. of Montana - Missoula	J1580090380, UMT-207	9,411
	Univ. of Montana - Missoula	J1580100376, UMT-237	41,531
	Univ. of Montana - Missoula	J2370106514	144,458
	Univ. of Montana - Missoula	J2301100201	9,400
	Univ. of Montana - Missoula	J1434100037, UMT-238	8,975
	Univ. of Montana - Missoula	J6490100437, UMT-240	3,511
	Univ. of Montana - Missoula	J1465100319, UMT-239	50,159
	Univ. of Montana - Missoula	J2301100204, UMT-243	1,418
	Univ. of Montana - Missoula	J2301100200	16,568
	Univ. of Montana - Missoula	J1242100023, UMT-245	8,813
	Univ. of Montana - Missoula	J1242100024, UMT-244	1,671
	Univ. of Montana - Missoula	J1580110107, UMT-247	32,492

Schedule of Unknown Federal CFDA Numbers (XX.999)

Federal Agency	State Agency	Contract or Grant Number	Amount
	Univ. of Montana - Missoula	J1434110014, UMT-248	11,782
	Univ. of Montana - Missoula	J1580110158, UMT-249	36,073
	Univ. of Montana - Missoula	P11AT00115, UMT-254	5,595
	Univ. of Montana - Missoula	P11AT0024, UMT-255	665
	Univ. of Montana - Missoula	P11AT10306, UMT-256	2,711
	Montana Tech - Butte	H1580070001	48,993
	Dept. of Envir. Quality	H1580060002	31,036
	Dept. Of Natural Resources	H1580070001	23,246
	Dept of Revenue	0206CA25939	217,381
	Montana State Univ. - Bozeman	H1200040001 MSU-29	10,283
	Montana State Univ. - Bozeman	06FC602143	49,025
	Montana State Univ. - Bozeman	06FC602128	5,499
	Montana State Univ. - Bozeman	J1460060025 MSU-111	145
	Montana State Univ. - Bozeman	L08AC14286	3,220
	Montana State Univ. - Bozeman	H8812-06-0502	-17
	Montana State Univ. - Bozeman	J1580070530	9,561
	Montana State Univ. - Bozeman	H1200040001/J1580070509	15,638
	Montana State Univ. - Bozeman	J1580080122 MSU-149	18
	Montana State Univ. - Bozeman	J1580080436 / MSU-161/170	-419
	Montana State Univ. - Bozeman	J1580080405	-62
	Montana State Univ. - Bozeman	J1580080407	141,791
	Montana State Univ. - Bozeman	J1212080049	7,256
	Montana State Univ. - Bozeman	J1580080390	-13
	Montana State Univ. - Bozeman	J1580080614 MSU-173	5,405
	Montana State Univ. - Bozeman	J1580090215/MSU-180	168,588
	Montana State Univ. - Bozeman	J1580090381/H1200090004/MSU190	174
	Montana State Univ. - Bozeman	J2120090011 MSU-186	59,917
	Montana State Univ. - Bozeman	J1571091020 MSU-191	311
	Montana State Univ. - Bozeman	J1580090462 MSU-200	54,866
	Montana State Univ. - Bozeman	J1580090445 MSU-198	38,802
	Montana State Univ. - Bozeman	J2146107001 MSU-208H1200090004	10,209
	Montana State Univ. - Bozeman	H1200090004/J12471000030MSU211	16,654
	Montana State Univ. - Bozeman	H1200090004/J1573107012	8,062
	Montana State Univ. - Bozeman	J1580100209/MSU-217	42,176
	Montana State Univ. - Bozeman	J1571100503;MSU-218;H120000900	21,655
	Montana State Univ. - Bozeman	J1571100503;MSU-218;H120000900	8,977
	Montana State Univ. - Bozeman	J2120100011 MSU-221	50,965
	Montana State Univ. - Bozeman	J2146107010 MSU-224	45,131
	Montana State Univ. - Bozeman	J8136100197 MSU-228	8,264
	Montana State Univ. - Bozeman	J1580100341 MSU-222	20,378
	Montana State Univ. - Bozeman	J1580100275 MSU-223	16,771
	Montana State Univ. - Bozeman	J1580100410 MSU-229	10,960
	Montana State Univ. - Bozeman	J1320119034/MSU 231	5,969
Department of Labor (17)			
	Labor and Industry	MI-19021-09-60-A-30	73,726
Department of Transportation (20)			
	Montana State Univ. - Bozeman	ARI 10686-2	12,206
Library of Congress (42)			

Schedule of Unknown Federal CFDA Numbers (XX.999)

Federal Agency	State Agency	Contract or Grant Number	Amount
	Montana Historical Society	09-038	3,955
	Montana Historical Society	10-039	8,040
National Aeronautics and Space Administration (43)			
	Univ. of Montana - Missoula	NNX07AJ28G	82,436
	Univ. of Montana - Missoula	NNX08AG87A	255,739
	Univ. of Montana - Missoula	NNX08AP59G	50,015
	Univ. of Montana - Missoula	NNX08AQ63A	278,555
	Univ. of Montana - Missoula	NNX09AP52G	155,865
	Univ. of Montana - Missoula	NNX09AQ80G	16,991
	Univ. of Montana - Missoula	NNX10AM15G	11,329
	Univ. of Montana - Missoula	NNX10AH57G	39,455
	Univ. of Montana - Missoula	NNX10AN58H	23,809
	Univ. of Montana - Missoula	NNX11AF18G	170,596
	Univ. of Montana - Missoula	1356497	29,570
	Univ. of Montana - Missoula	3672-UM-NASA-J90G	35,592
	Univ. of Montana - Missoula	1350935	79,239
	Univ. of Montana - Missoula	1364345	12,913
	Univ. of Montana - Missoula	1368208	65,070
	Univ. of Montana - Missoula	1388663	108,824
	Univ. of Montana - Missoula	1400503	59,884
	Univ. of Montana - Missoula	2010-2386	12,575
	Univ. of Montana - Missoula	1405851	30,159
	Univ. of Montana - Missoula	1422120	11,335
	Montana State Univ. - Bozeman	NNA08CN85A	636,006
	Montana State Univ. - Bozeman	UND0014026	-1
	Montana State Univ. - Bozeman	Z641403	23,368
	Montana State Univ. - Bozeman	NNA08CN85A	14,229
	Montana State Univ. - Bozeman	UND0015364	61,633
	Montana State Univ. - Bozeman	WHRC-MSU2009	77,058
National Science Foundation (47)			
	Montana State Univ. - Bozeman	208FOU076	6,455
Environmental Protection Agency (66)			
	Univ. of Montana - Missoula	CD97874601	420
	Univ. of Montana - Missoula	P.O. 81417	1,037
	Univ. of Montana - Missoula	EP-BPA-11-C-0013	2,043
	Univ. of Montana - Missoula	BF-97810201-4	6,285
Department of Energy (81)			
	Univ. of Montana - Missoula	4000101914	57,869
	Montana Tech - Butte	444-008	-91
	Montana Tech - Butte	DE-AC07-05ID14517	32,041
	Montana Tech - Butte	DE-AC05-76RL01830	-202
	Montana Tech - Butte	DE-AC05-76RL01830	19,846
	Montana Tech - Butte	DE-AC05-76RL01830	91,663
	Montana Tech - Butte	190825	19,386
	Montana Tech - Butte	457-011	54,928
	Dept. of Envir. Quality	DE-AC05-76RL01830, contract #136136	82,831
	Montana State Univ. - Bozeman	60-5004-301	2,035
	Montana State Univ. - Bozeman	MSU-4101-090209	88,363

Schedule of Unknown Federal CFDA Numbers (XX.999)

Federal Agency	State Agency	Contract or Grant Number	Amount
Department of Education (84)	Montana State Univ. - Bozeman	60-5004-302	44,708
	Office of Public Instruction	ED-08-CO-0076	202,217
	Office of Public Instruction	ED-03-CO-0045	509
	Office of Public Instruction	ED-04-CO-0060/0003	39,542
Department of Public Health and Human Services (93)			
	Montana State Univ. - Bozeman	R01AG040020	1,165
	Univ. of Montana - Missoula	GS00F0083N	668
	Montana Tech - Butte	200-2009-M-29841	5,695
	Montana Tech - Butte	200-2010-M-33703	16,486
	Public Health and Human Ser.	HHSF223000840148C	45,401
	Public Health and Human Ser.	211-2009-M-30297	-122
	Montana State Univ. - Bozeman	7K01DA019458-06	14,133

STATE OF MONTANA

DEPARTMENT RESPONSE

DEPARTMENT OF ADMINISTRATION
DIRECTOR'S OFFICE

B-1



BRIAN SCHWEITZER, GOVERNOR

JANET R. KELLY, DIRECTOR

STATE OF MONTANA

(406) 444-2032
FAX (406) 444-6194

MITCHELL BUILDING
125 N. ROBERTS, RM 155
PO BOX 200101
HELENA, MONTANA 59620-0101

April 2, 2012

RECEIVED

APR 02 2012

LEGISLATIVE AUDIT DIV.

Tori Hunthausen, Legislative Auditor
State Capitol Building, Room 160
PO Box 201075
Helena MT 59620-1705

RE: Financial Audit: 11-01A State of Montana for the fiscal year ended
June 30, 2011

Dear Ms. Hunthausen:

The Department of Administration (DOA) respectfully disagrees with the Legislative Audit Division (LAD) regarding how to report Montana State Fund's Old Fund claims liability. Therefore, we believe there is no basis for issuing a qualified opinion on the basic financial statements.

Pursuant to our interpretation of Generally Accepted Accounting Principles (GAAP), and advice received from the Governmental Accounting Standards Board (GASB) staff, the Old Fund claims should be reported by the party legally obligated to pay them. We confirmed that the legal liability remained with the State Fund in a legal opinion issued by the Department's Chief Legal Counsel and a Letter of Advice from Montana's Attorney General. Both of these documents are enclosed.

The following excerpts are from the Attorney General's Letter of Advice.

. . . The law governing assets and liabilities of the Old Fund clearly provides that the legislature intended for the State Fund to "assume liability for all outstanding claims and indebtedness of the previously existing state fund." Mont. Code Ann. § 39-71-2319. In addition to designating the State Fund as the entity legally liable for outstanding claims and indebtedness of the Old Fund, the Legislature created a separate payment structure and a separate funding source for payment for claims of injury occurring before July 1, 1990 (claims against the Old Fund) and for those claims occurring on or after July 1, 1990 (claims against the State Fund). The legislature also provided for

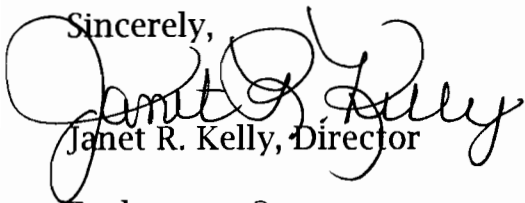
contingency funding in the event that revenue from the Old Fund liability tax did not cover the cost of claims. Section 39-71-2352(6) provides for that contingency, it states "[i]f in any fiscal year after the old fund liability tax is terminated claims for injuries resulting from accidents that occurred before July 1, 1990, are not adequately funded, any amount necessary to pay claims for injuries resulting from accidents that occurred before July 1, 1990, ***must be transferred from the general fund to the fund provided for in 39-71-2321.***" (Emphasis added). . . .

The State Fund not the State of Montana remains the entity ***legally*** liable for such claims. This conclusion is supported both by the plain language of section 39-71-2319 and the contingency provision in section 39-71-2352(6). By providing for a transfer from the general fund to the Old Fund account, the Legislature created a payment structure that reflects the intent expressly stated in section 39-71-2319, "the State Fund shall assume liability for all outstanding claims and indebtedness of the previously existing state fund." . . . The State Fund's ***legal*** liability did not terminate when the Old Fund liability tax reserves were depleted. The entity responsible for payment of claims – the State Fund – remains the same. It is the funding source for payment of those claims that has changed.

The Old Fund's obligation to their claimants continues to be presented in this report as part of the State Fund, in a manner consistent with prior year reporting, and as required under current GAAP. We do not agree with the LAD recommended State Fund reporting change and qualification of this financial report.

The Department's State Accounting Division staff and I appreciate the audit team's work on the State's financial statements for the year ended June 30, 2011.

Sincerely,

A handwritten signature in black ink, appearing to read "Janet R. Kelly". The signature is fluid and cursive, with the first name "Janet" being the most prominent part. Below the signature, the name "Janet R. Kelly, Director" is printed in a standard font.

Enclosures: 2

ATTORNEY GENERAL
STATE OF MONTANA

B-3

Steve Bullock
Attorney General



Department of Justice
215 North Sanders
PO Box 201401
Helena, MT 59620-1401

March 16, 2012

RECEIVED

MAR 19 2012

DEPT. OF ADMINISTRATION
DIRECTOR'S OFFICE

Janet R. Kelly
Director, Department of Administration
Mitchell Building
125 N. Roberts, RM 155
Helena, Montana 59620-0101

Re: Request for Letter of Advice

Dear Director Kelly:

You have written this office seeking a letter of advice. The question you present is related to a dispute that has arisen between the Department of Administration's State Accounting Division (SAD) and the Montana Legislative Audit Division (LAD) on an adjustment proposed by the LAD to Montana's basic financial statements and to this year's Comprehensive Annual Financial Report (CAFR). Specifically, the question presented is:

Are the outstanding workers' compensation claims for injuries resulting from accidents that occurred before July 1, 1990 (so-called Old Fund Claims) a legal liability of the Montana State fund or a legal liability of the State of Montana?

Because the question you've presented is fact specific to the disagreement between SAD and LAD and because it is a question that is unlikely to re-occur, we agree that a letter of advice is the appropriate response.

In support of your request, you provided a legal memorandum authored by Chief Legal Counsel for your Department. By way of background that legal memo provides that prior to this reporting period, liability for the Old Fund claims and expenses were attributed to the Montana State Fund. Up until FY11, payment of such claims and expenses was made from reserves accumulated in the Old Fund account from the Old Fund liability tax.¹ After a FY 11 payment of \$16,657,355, however, the accumulated reserves have been depleted. As a result, payment of claims and expenses for FY12 will require a transfer from the general fund to the Old Fund account.

¹ Determining that the account was adequately funded, the Legislature discontinued the Old Fund Liability tax in 1999.

Janet R. Kelly, Director
 March 16, 2012
 Page 2

Because payment of the Old Fund claims and expenses in FY 12 will require a transfer of general fund dollars to the Old Fund account, LAD has determined the claims should be reported as a general, long-term liability for the State of Montana.

The law governing assets and liabilities of the Old Fund clearly provides that the legislature intended for the State Fund to “assume liability for all outstanding claims and indebtedness of the previously existing state fund.” Mont. Code Ann. §39-71-2319. In addition to designating the State Fund as the entity legally liable for outstanding claims and indebtedness of the Old Fund, the Legislature created a separate payment structure and a separate funding source for payment for claims of injury occurring before July 1, 1990 (claims against the Old Fund) and for those claims occurring on or after July 1, 1990 (claims against the State Fund). The legislature also provided for contingency funding in the event that revenue from the Old Fund liability tax did not cover the cost of claims. Section 39-71-2352(6) provides for that contingency, it states “[i]f in any fiscal year after the old fund liability tax is terminated claims for injuries resulting from accidents that occurred before July 1, 1990, are not adequately funded, any amount necessary to pay claims for injuries resulting from accidents that occurred before July 1, 1990, ***must be transferred from the general fund to the fund provided for in 39-71-2321.***” (Emphasis added).

As noted above, up until FY 11 revenue generated from the Old Fund liability tax had covered claims associated with injuries occurring before July 1, 1990. In FY 11, the Old Fund liability tax revenues were depleted and pursuant to Mont. Code Ann. §39-71-2352(6), \$50,000 was transferred from the general fund to the Old Fund account to cover the full cost of claims. Because the Old Fund liability tax reserves have been fully depleted, after FY 11 all future payments of Old Fund claims will require a transfer from the general fund to the Old Fund account. The LAD has thus concluded that beginning in FY 12, liability for Old Fund claims should be reported as a general, long-term liability for the State of Montana.

While the general fund becomes the funding source to pay claims and expenses against the Old Fund in FY 12, the State Fund not the State of Montana remains the entity ***legally*** liable for such claims. This conclusion is supported both by the plain language of section 39-71-2319 and the contingency provision in section 39-71-2352(6). By providing for a transfer from the general fund to the Old Fund account, the Legislature created a payment structure that reflects the intent expressly stated in section 39-71-2319, “the State Fund shall assume liability for all outstanding claims and indebtedness of the previously existing state fund.” LAD suggests that section 39-71-2352(6) subrogates the liability for Old Fund claims to the general fund. I do not think the theory of subrogation applies to this issue. Black’s Law dictionary defines subrogation to mean “the substitution of one party for another whose debt the party pays, entitling the paying party to rights, remedies, or securities that would otherwise belong to the debtor.” Black’s Law Dictionary (8th ed. 2004). In this instance, the State Fund is not substituted as the party bearing responsibility to pay. The State Fund’s ***legal*** liability did not terminate when the Old Fund liability tax reserves were depleted. The entity responsible for payment of claims—the State Fund—remains the same. It is the funding source for payment of those claims that has changed.

Janet R. Kelly, Director
March 16, 2012
Page 3

In a letter submitted in response to your request, LAD suggests that the question at issue is not one of legal liability; rather, it is a more technical question of financial reporting. Because the question you pose is which entity - the State of Montana or the State Fund - has *legal* liability that is the question answered in this letter. However, in light of LAD's concern, perhaps the obligation to pay the claims and expenses associated with Old Fund injuries could be reported as an obligation of the State Fund to the claimants, and an obligation of the general fund to the State Fund to provide the resources to pay the claims.

This letter should not be construed as a formal Opinion of the Attorney General.

Sincerely,

A handwritten signature in black ink, appearing to read "Ali Bovingdon", written over the printed name.

ALI BOVINGDON
Deputy Attorney General

AB:sj

c: File

1
2
3 M E M O R A N D U M

4 To: Paul Christofferson

5 Fr: Mike Manion

6 Re: Old Fund Liability

7 Date: January 12, 2012

8 INTRODUCTION

9 You have sought my opinion regarding what entity is liable
10 for the Old Fund's continuing obligations. These obligations
11 represent claims for injuries arising before July 1, 1990. This
12 issue is ripe because a disagreement exists between your office,
13 on one side, and the Legislative Auditor and the State Fund on
14 the other, and the answer will affect the presentation of the
15 Old Fund obligations in the Comprehensive Annual Financial
16 Report (CAFR).

17 Your position is that even though the general fund will in
18 FY 2012 and likely beyond pay for the entirety of the Old Fund
19 obligations, the liability remains with the State Fund given the
20 way the statutes are written. The Legislative Auditor and the
21 State Fund contend that since the general fund will into the
22 future pay all the Old Fund Obligations, the general fund has
23 assumed the liability.

24 FACTS

25 To date, the State Fund has shouldered the Old Fund
26 liabilities. This has occurred because the Old Fund account had
27 sufficient reserves to pay the Old Fund claims and expenses.
28 These reserves were accumulated due to an Old Fund liability

1 tax. The 1999 Legislature discontinued this tax, determining
2 that the account was adequately funded.

3 I understand that for FY 2011 the State Fund, via the Old
4 Fund account, paid \$16,657,355 of Old Fund claims and expenses,
5 while the general fund transferred \$50,000 to the Old Fund
6 account. As noted, for FY 2012 the general fund will transfer an
7 amount necessary to pay all the Old Fund claims and expenses.

8 RELEVANT STATUTES

9 Workers' compensation is a statutory creation. It is
10 therefore necessary to focus on the key statutes to help answer
11 your question. These statutes are attached under Exhibit A to
12 this document. I will review each statute cited.

13 Section 39-71-2313, MCA, establishes the State Fund as an
14 independent public corporation. Accordingly, the State Fund is a
15 single legal entity. There are not two State Funds.

16 Section 39-71-2319, MCA, mandates that the State Fund
17 receive all the assets and funds of the previous state
18 compensation insurance fund but that it also assume liability
19 for all outstanding claims and indebtedness. This particular
20 statute was passed as a part of a larger enactment restructuring
21 workers' compensation (Chapter No. 613, L. 1989, SB 428).

22 Section 39-71-2319, MCA, was Section 11 Chapter 643. This
23 section, along with several other sections, was effective upon
24 signing of an Executive Order under Section 63 of the chapter or
25 January 1, 1990, whichever occurred earlier. I was unable to
26 locate the applicable Executive Order, so I believe the statute
27 was effective January 1, 1990.

28

1 I understand from you that most of the Old Fund claims
2 (more than 90%) accrued before January 1, 1990. Section 39-71-
3 2319, MCA, is important for two reasons: (1) it uses the words
4 "shall assume liability" and (2) it requires that the State Fund
5 assume the outstanding claims and indebtedness of the previous
6 entity, which would include, as I understand it, most of the Old
7 Fund Claims.

8 Section 39-71-2321, MCA, explains that all State Fund money
9 must be separated into two accounts, depending on whether the
10 money relates to Old Fund claims or claims arising from injuries
11 occurring after July 1, 1990.

12 Section 39-71-2351, MCA, provides the rationale for why the
13 State Fund money must be separated into two accounts. This
14 section is important because it states that the State Fund
15 incurred the Old Fund liability and that the best way to
16 administer this liability is to separate the liability depending
17 on whether a claim is based on an injury occurring before July
18 1, 1990 or after that date. On its face, the statute separates
19 the State Fund's liability but does not eliminate it or transfer
20 it to another entity.

21 Section 39-71-2352, MCA, sheds light on the issue at hand
22 because it states that if the Old Fund claims are not adequately
23 funded after the Old Fund liability tax ends, then any amount to
24 pay these claims must be transferred from the general fund to
25 the Old Fund account.

26 Finally, while not cited in Exhibit A, §39-71-2502, MCA,
27 (which was repealed in 1997) referenced the State Fund's
28 liability for the Old Fund claims: "Based on current liabilities

1 and actuarial analysis, an unfunded liability presently exists
2 in the state fund with regard to claims for injuries resulting
3 from accidents that occurred before July 1, 1990"; and "While
4 legislative action is required to correct the causes of the
5 unfunded liability, those actions will not provide sufficient
6 funds to permit the state fund to pay its existing liabilities
7 and obligations in a timely manner from premium and investment
8 income available to the state fund." This statute was amended
9 in the May 1990 Special Session to provide for the payroll tax
10 on all employers as a source of supplemental funding for the Old
11 Fund.

12 LEGISLATIVE HISTORY

13 I have reviewed the legislative history of the above
14 statutes. The history does not shed any compelling light on
15 this issue. For example, the history of the general fund
16 transfer amendments (August 2002 Special Session) shows that the
17 state was facing budget difficulties. Money was being sought
18 from the Old Fund to fund other state programs, primarily
19 education. One of the tradeoffs for taking money from the Old
20 Fund was that the general fund would transfer money to the Old
21 Fund if the Old Fund tax did not generate enough money to pay
22 the claims. The history does not show that the Legislature
23 intended the general fund would assume the legal liability for
24 the Old Fund claims, but would act as a backstop if a shortfall
25 incurred. (Senator Doherty: the state would be obligated to come
26 back in if the world falls in with the Old Fund claims.
27 *Minutes, Senate Committee on Finance, August 7, 2002, p. 17*).
28

RULES OF STATUTORY INTERPRETATION

Montana law provides that in the construction of a statute, the court is to simply decide and declare what is in the statute and not insert words that have been omitted or to omit words that have been used. Where there are several provisions or particulars, the court is to try to give effect to all. 1-2-101, MCA. When a general provision and a particular provision are inconsistent, the particular intent will control a general one that is inconsistent with it. 1-2-102, MCA.

The Montana Supreme Court has held that it will harmonize statutes relating to the same subject to give effect to each. "Statutory construction is a holistic endeavor and must account for the statute's text, language, structure, and object." *S.L.H. v. State Compensation Mutual Insurance Fund*, 303 Mont. 364, ¶ 16, 15 P.3d 948, ¶ 16 (2000) (citation omitted); *Montana Trout Unlimited v. Beaverhead Water Co.*, 361 Mont. 77, ¶ 31, 255 P.3d 179, ¶ 31 (2011). A court will also read and construe the statute as a whole to avoid an absurd result and to give effect to a statute's purpose. *In re Marriage of Shirilla*, 319 Mont. 385, ¶ 12, 89 P.3d 1, ¶ 12 (2004) (citing § 1-2-102, MCA). A court operates under the presumption that the Legislature does not pass meaningless legislation, and it will harmonize statutes relating to the same subject in order to give effect to each statute. *Oster v. Valley Co.*, 333 Mont. 76, ¶ 17, 140 P.3d 1079, ¶ 17 (2006). The court also presumes that the Legislature acts with deliberation and full knowledge of all existing laws on a subject. *Ross v. City of Great Falls*, 291 Mont. 377, ¶ 17, 967 P.2d 1103, ¶ 17 (1998).

1 Finally, if a statute is clear and unambiguous, the court
2 will interpret the statute without reference to the statute's
3 legislative history. *State v. Goebel*, 305 Mont. 53, ¶ 21, 31
4 P.3d 335, ¶ 21(2001).

5 SUBROGATION DISCUSSION

6 In arguing that the general fund is now legally liable for
7 the Old Fund claims, the Legislative Audit Division (LAD) relies
8 on the principle of subrogation. LAD states that the Old Fund
9 liability was legislatively subrogated to the State Fund and
10 then the general fund for any short falls, citing §39-71-
11 2352(6), MCA. "Legal subrogation (which is the type we are
12 discussing here) arises by operation of law where one having a
13 liability pays a debt due by another." (*Leg. Aud. Div. Mem. from*
14 *Butler to Jorgenson of 11/9/11*).

15 With all due respect, subrogation does not apply here.
16 Subrogation is a substitutionary legal action, where one party
17 acquires the legal rights of another in exchange for assuming
18 the person's risk of loss. *Blue Cross Blue Shield of Montana v.*
19 *Montana State Auditor*, 352 Mont. 423, ¶ 24, 218 P.3d 475, ¶ 24
20 (2009). Legal subrogation arises by operation of law, upon the
21 fact of payment made by another. A simple example of legal
22 subrogation follows: State Fund pays its insured for damages
23 sustained in accident caused by another. The State Fund is
24 subrogated to the rights its insured has against the third party
25 who is responsible for the loss. The theory behind subrogation
26 is that the third party would go free despite its legal
27 obligation in connection with the loss, and this would not be
28 equitable.

1 Here, the general fund is not acquiring any rights of the
2 State Fund. Under §39-71-2352(6), MCA, any shortfall of the Old
3 Fund is transferred from the general fund to the Old Fund
4 account. The general fund is a source of money but does not
5 gain any subrogation rights of the Old Fund to recoup its
6 payment once that payment is made.

7 LAD cites in its memorandum the workers' compensation
8 subrogation statute (§39-71-414, MCA). This statute explains
9 subrogation in the workers' compensation context. Importantly
10 and tellingly, this statute highlights why subrogation has
11 nothing to do with the issue of who is liable for the Old Fund
12 claims.

13 ANALYSIS

14 Section 39-71-2319, MCA, clearly states that the State Fund
15 assumed the liability for all outstanding claims and
16 indebtedness of the old state compensation insurance fund.
17 Section 39-71-2351, MCA, provides that the State Fund incurred
18 the Old Fund liability, and that this liability would be
19 separated—but not eliminated or assumed by a third party—from
20 liability for claims incurred after July 1, 1990. This
21 separation was accomplished by the establishment of two
22 accounts. Equating "separation" with the assumption of Old Fund
23 liability by a third party inserts terms that the Legislature
24 did not use.

25 Section 39-71-2352(6), MCA, creates the debate because it
26 states that the general fund is responsible for the shortfall.
27 Of note, this statute does not mandate that the general fund
28 assume the State Fund's liability for the Old Fund claims. The

1 language is that if a shortfall occurs, money "...must be
2 transferred from the general fund to the account provided for in
3 39-71-2321."

4 As stated, a rule of statutory interpretation is that the
5 court presumes the Legislature acts with deliberation and full
6 knowledge of all existing laws on a subject. In earlier
7 statutes (39-71-2351, MCA, 39-71-2319, MCA,), the Legislature
8 determined that the State Fund had incurred the Old Fund claims
9 and that the State Fund was to assume liability for all
10 outstanding claims and indebtedness of the State Fund's
11 predecessor. If it is presumed that the Legislature passed the
12 general fund shortfall statute knowing about these earlier laws
13 but did not change any of the statutes to state it was requiring
14 the general fund to assume the liability for the Old Fund
15 claims, then the Legislature did not intend this result- that
16 is, it intended for the liability to remain with the State Fund,
17 but that the State Fund could tap the general fund as backstop
18 funding source. See, e.g., *Langemo v. Montana Rail Link, Inc.*,
19 307 Mont. 293, ¶ 25, 38 P.3d 782, ¶ 25 (2001). ("At no time
20 between 1873 and the time of the collision at issue did the
21 Legislature insert the word "public" so as to restrict
22 application of the whistle statute to public railroad crossings.
23 When the Legislature enacted the original version of § 69-14-
24 562(7), MCA, in 1873, it knew the meaning of the word "public"
25 and how to use it to restrict applicability of railroad
26 statutes. See, e.g., §§ 69-14-554(2), -534, -551, MCA.")

27 The counter arguments to this position are: (1) although
28 the Legislature did not explicitly state that the general fund

1 would assume the Old Fund liability, the words "any amount
2 necessary to pay [Old Fund claims] must be transferred from the
3 general fund to the [Old Fund account]...." mean the same thing
4 and (2) the general fund shortfall statute impliedly repealed
5 the earlier statutes.

6 I understand these arguments but do not think they
7 ultimately prevail. First, in passing the general fund
8 shortfall law, the Legislature did not state it was mandating
9 that the general fund assume the Old Fund liability. This is
10 important. Clearly, the Legislature used the word "liability"
11 in the earlier statutes (§§ 39-71-2319 and 39-71-2351). It would
12 not have been difficult for the Legislature to insert a sentence
13 stating that the general fund was to assume the Old Fund legal
14 liability from the State Fund. Another rule of statutory
15 interpretation is that one should not insert words that have
16 been omitted. In arguing that the general fund has assumed this
17 liability from the State Fund, one would be inserting words
18 about a shift in liability that the Legislature chose to omit.

19 Second, for several reasons the implied repeal position
20 lacks merit. A later general statute does not expressly repeal
21 a prior specific statute unless the intent to do so is manifest
22 or unavoidably implied. *Ross v. City of Great Falls*, 291 Mont.
23 377, ¶ 18, 967 P.2d 1103, ¶ 18(1998). The Montana Supreme Court
24 has held that repeal of a statute by implication is not favored
25 in Montana. *Id.* at ¶ 17. The Court presumes that the Legislature
26 does not intend to abrogate or interfere with a former law on a
27 subject unless the repugnancy between the two is irreconcilable.
28 *Id.*

1 The statute regarding the State Fund's liability is
2 specific regarding the Old Fund claims, while the general fund
3 shortfall statute, as noted, does not mention anything about the
4 liability being assumed by the general fund. In this situation,
5 the general fund is acting more like a bank for a borrower who
6 owes money to a third party. The bank assumes no liability to
7 the third party; the liability remains with the borrower. This
8 construction harmonizes the various statutes.

9 The bottom line is: to reach a conclusion finding the
10 general fund is legally liable for the Old Fund claims, the
11 earlier statutes regarding the State Fund's liability for these
12 claims have to be ignored or impliedly repealed. The language
13 in all of these statutes and the rules of statutory
14 interpretation, however, do not support this result.

15 Hopefully, this Memorandum addresses the issue you raised.
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39-71-2313 State compensation insurance fund created -- obligation to insure.

(1) There is a state compensation insurance fund known as the state fund that is a nonprofit, independent public corporation established for the purpose of allowing an option for employers disease coverage under this chapter.

(2) The state fund is required to insure any employer in this state who requests coverage, and it may not refuse to provide coverage unless an employer or the employer's principals have defaulted on a state fund obligation and the default remains unsatisfied.

39-71-2319 Assets and liabilities of prior state fund.

All assets and funds held by the state compensation insurance fund established in former 39-71-2301, 39-71-2302, 39-71-2304 through 39-71-2306, and 39-71-2324 and 39-71-2321 through and 39-71-2340 must be transferred to the state fund, and the state fund shall assume liability for all outstanding claims and indebtedness of the previously existing state fund.

39-71-2321 What to be deposited in state fund.

(1) All premiums, penalties, recoveries by subrogation, interest earned upon money belonging to the state fund, securities acquired by or through use of money, and all interest and penalties on taxes in accordance with 17-2-124 must be deposited in the state fund. Except for a transfer authorized under 39-71-2352, the money must be separated into two accounts based upon whether they relate to claims for injuries resulting from accidents that occurred before July 1, 1990, or claims for injuries resulting from accidents that occur on or after that date.

(2) All funds deposited in the state fund may be spent as provided in 17-8-101(2)(b).

39-71-2351 Purpose of separation of state fund liability as of July 1, 1990, and of separate funding of claims before and on or after that date.

(1) An unfunded liability exists in the state fund. It has

existed since at least the mid-1980s and has grown each year. There have been numerous attempts to solve the problem by legislation and other methods. These attempts have alleviated the problem somewhat, but the problem has not been solved.

(2) The legislature has determined that it is necessary to the public welfare to make workers' compensation insurance available to all employers through the state fund as the insurer of last resort. In making this insurance available, the state fund has incurred the unfunded liability. The legislature has determined that the most cost-effective and efficient way to provide a source of funding for and to ensure payment of the unfunded liability and the best way to administer the unfunded liability is to separate the liability of the state fund on the basis of whether a claim is for an injury resulting from an accident that occurred before July 1, 1990, or an accident that occurs on or after that date.

(3) The legislature further determines that in order to prevent the creation of a new unfunded liability with respect to claims for injuries for accidents that occur on or after July 1, 1990, certain duties of the state fund should be clarified and legislative oversight of the state fund should be increased.

39-71-2352 Separate payment structure and sources for claims for injuries resulting from accidents that occurred before July 1, 1990, and on or after July 1, 1990 -- spending limit -- authorizing transfer of money.

(1) Premiums paid to the state fund based upon wages payable before July 1, 1990, may be used only to administer and pay claims for injuries resulting from accidents that occurred before July 1, 1990. Premiums paid to the state fund based upon wages payable on or after July 1, 1990, may be used only to administer after July 1, 1990.

(2) The state fund shall:

(a) determine the cost of administering and paying claims for injuries resulting from accidents that occurred before July 1, 1990, and separately determine the cost of administering and paying claims for injuries resulting from accidents that occur on or after July 1, 1990;

(b) keep adequate and separate accounts of the costs determined under subsection (2)(a); and

(c) fund administrative expenses and benefit payments for claims for injuries resulting from accidents that occurred before July 1, 1990, and claims for injuries resulting from accidents that occur on or after July 1, 1990, separately from the sources

provided by law.

(3) The state fund may not spend more than \$ 1.25 million a year to administer claims for injuries resulting from accidents that occurred before July 1, 1990.

(4) As used in this section, "adequately funded" means the present value of:

- (a) the total cost of future benefits remaining to be paid; and
- (b) the cost of administering the claims.

(5) An amount of funds in excess of the adequate funding amount established in subsection (4), based on audited financial statements adjusted for unrealized gains and losses, must be transferred to the general fund.

(6) If in any fiscal year after the old fund liability tax is terminated claims for injuries resulting from accidents that occurred before July 1, 1990, are not adequately funded, any amount necessary to pay claims for injuries resulting from accidents that occurred before July 1, 1990, must be transferred from the general fund to the account provided for in 39-71-2321.

(7) The independent actuary engaged by the state fund pursuant to 39-71-2330 shall project the unpaid claims liability for claims for injuries resulting from accidents that occurred before July 1, 1990, each fiscal year until all claims are paid.

**OFFICE OF THE GOVERNOR
STATE OF MONTANA**



BRIAN SCHWEITZER
GOVERNOR

PO Box 200801
HELENA, MONTANA 59620-0801

RECEIVED

MAR 30 2012

LEGISLATIVE AUDIT DIV.

March 26, 2012

Ms. Tori Hunthausen
Legislative Audit Division
Room 160, State Capitol
Helena, MT 59620-1705

RE: State of Montana Financial Audit, (11-01A)

Dear Ms. Hunthausen,

The Governor's Budget Office is pleased with your issuance of an unqualified opinion on our Schedule of Expenditure of Federal Awards (SEFA) in relation to the basic financial statements.

Sincerely,

A handwritten signature in black ink, appearing to read "Dan Villa".

Dan Villa
Budget Director

cc: Mark Bruno, Single Audit Coordinator